BASE PROSPECTUS DATED 21 OCTOBER 2010

ABU DHABI COMMERCIAL BANK P.J.S.C

(incorporated with limited liability in Abu Dhabi, United Arab Emirates)

and

ADCB FINANCE (CAYMAN) LIMITED

(incorporated with limited liability in the Cayman Islands)

in the case of Notes issued by ADCB FINANCE (CAYMAN) LIMITED unconditionally and irrevocably guaranteed by ABU DHABI COMMERCIAL BANK P.J.S.C.

(incorporated with limited liability in Abu Dhabi, United Arab Emirates)

U.S.$7,500,000,000
Global Medium Term Note Programme

Under this U.S.$7,500,000,000 Global Medium Term Note Programme (the "**Programme**"), Abu Dhabi Commercial Bank P.J.S.C. ("**ADCB**" or the "**Bank**") and ADCB Finance (Cayman) Limited ("**ADCB Finance Cayman**", and together with ADCB each an "**Issuer**" and together the "**Issuers**") may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the relevant Issuer and the relevant Dealer (as defined below).

The obligations of ADCB Finance Cayman in respect of Notes issued by it will be unconditionally and irrevocably guaranteed (the "**Guarantee**") by ADCB (in such capacity, the "**Guarantor**"). References in this Base Prospectus to the Obligors are to ADCB and ADCB Finance Cayman and to the relevant **Obligors** shall, in the case of an issue of Notes, mean the relevant Issuer and, if the relevant Issuer is ADCB Finance Cayman, the Guarantor.

Notes may be issued in bearer or registered form (respectively "**Bearer Notes**" and "**Registered Notes**"). The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed U.S.$7,500,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement described herein), subject to any increase as described herein.

The Notes may be issued on a continuing basis to one or more of the Dealers specified under "*Description of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Issuers (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus to the **relevant Issuer** shall, in the case of an issue of Notes, be to the Issuer issuing those Notes as specified in the applicable Final Terms and to the **relevant Dealer** shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe such Notes.

An investment in Notes issued under the Programme involves certain risks, see "*Risk Factors*" on page 1.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the "**UK Listing Authority**") for Notes issued under the Programme during the period of 12 months from the date of this Base Prospectus to be admitted to the official list of the UK Listing Authority (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market.

This Base Prospectus relates to an Exempt Offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority. This Base Prospectus is intended for distribution only to Persons of a type specified in those rules. It must not be delivered to, or relied on by, any other Person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The Dubai Financial Services Authority has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it. The Notes to which this Base Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Notes offered should conduct their own due diligence on the Notes. If you do not understand the contents of this Base Prospectus you should consult an authorised financial adviser.

References in this Base Prospectus to Notes being **listed** (and all related references) shall mean that such Notes have been admitted to trading on the London Stock Exchange's Regulated Market and have been admitted to the Official List. The London Stock Exchange's Regulated Market is a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council on markets in financial instruments.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche (as defined under "*Terms and Conditions of the Notes*") of Notes will be set out in a final terms document (the "**Final Terms**") which, with respect to Notes to be listed on the London Stock Exchange, will be delivered to the UK Listing Authority and the London Stock Exchange.

The Programme provides that Notes may be listed or admitted to trading, as the case may be, on such other or further stock exchanges or markets as may be agreed between the relevant Obligors and the relevant Dealer. The Issuers may also issue unlisted Notes and/or Notes not admitted to trading on any market.

The Notes and any guarantee thereof have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or any U.S. state securities laws and the Notes may not be offered or sold in the United States or to, or for the account or the benefit of, U.S. persons unless an exemption from the registration requirements of the Securities Act is available and the offer or sale is made in accordance with all applicable securities laws of any state of the United States and any other jurisdiction. The Notes are being offered and sold outside the United States to persons that are not U.S. persons in reliance on Regulation S ("**Regulation S**") under the Securities Act and within the United States only to persons who are "qualified institutional buyers" ("**QIBs**") in reliance on Rule 144A ("**Rule 144A**") under the Securities Act. See "*Form of the Notes*" for a description of the manner in which Notes will be issued. Registered Notes are subject to certain restrictions on transfer, see "*Subscription and Sale and Transfer and Selling Restrictions*".

The relevant Obligors may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes herein, in which event a supplemental prospectus, if appropriate, will be made available, which will describe the effect of the agreement reached in relation to such Notes.

Arranger

HSBC

Dealers

Abu Dhabi Commercial Bank	**BofA Merrill Lynch**
BNP Paribas	**Citi**
Commerzbank	**Daiwa Capital Markets Europe**
Deutsche Bank	**HSBC**
J.P. Morgan	**Standard Chartered Bank**

The date of this Base Prospectus is 21 October 2010.

This Base Prospectus comprises a base prospectus for the purposes of Article 5.4 of Directive 2003/71/EC (the "*Prospectus Directive*"). The Obligors accept responsibility for the information contained in this Base Prospectus. To the best of the knowledge and belief of the Obligors (each having taken all reasonable care to ensure that such is the case) the information contained in this Base Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Base Prospectus is to be read in conjunction with any amendments or supplements hereto and with any documents incorporated herein by reference (see "*Documents Incorporated by Reference*") and, in relation to any Tranche of Notes, should be read in conjunction with the applicable Final Terms.

The Dealers have not independently verified the information contained herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Dealers as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Obligors in connection with the Programme. No Dealer accepts any liability in relation to the information contained or incorporated by reference in this Base Prospectus or any other information provided by the Obligors in connection with the Programme.

Subject as provided in the applicable Final Terms, the only persons authorised to use this Base Prospectus in connection with an offer of Notes are the persons named in the applicable Final Terms as the relevant Dealer or the Managers, as the case may be.

No person is or has been authorised by the Obligors to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Obligors or any of the Dealers.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Obligors or any of the Dealers that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Obligors. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Obligors or any of the Dealers to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Obligors is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Obligors since the date of this Base Prospectus. The Dealers expressly do not undertake to review the financial condition or affairs of the Obligors during the life of the Programme or to advise any investor in the Notes of any information coming to their attention.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Obligors and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Obligors or the Dealers which is intended to permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly,

no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the European Economic Area (including the United Kingdom), the Cayman Islands, Japan, the United Arab Emirates, the Kingdom of Saudi Arabia and the Kingdom of Bahrain, see "*Subscription and Sale and Transfer and Selling Restrictions*".

This Base Prospectus has been prepared on the basis that any offer of Notes in any Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "*Relevant Member State*") will be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of Notes which are the subject of an offering contemplated in this Base Prospectus as completed by final terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer.

Neither the Issuer nor any Dealer have authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Issuer or any Dealer to publish or supplement a prospectus for such offer.

In making an investment decision, investors must rely on their own examination of the Obligors and the terms of the Notes being offered, including the merits and risks involved. The Notes and any guarantee thereof have not been approved or disapproved by the United States Securities and Exchange Commission or any other securities commission or other regulatory authority in the United States, nor have the foregoing authorities approved this Base Prospectus or confirmed the accuracy or determined the adequacy of the information contained in this Base Prospectus. Any representation to the contrary is unlawful.

None of the Dealers or the Obligors makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

U.S. INFORMATION

This Base Prospectus is being submitted on a confidential basis in the United States to a limited number of QIBs for informational use solely in connection with the consideration of the purchase of the Notes being offered hereby. Its use for any other purpose in the United States is not authorised. It may not be copied or reproduced in whole or in part nor may it be distributed or any of its contents disclosed to anyone other than the prospective investors to whom it is originally submitted.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to United States persons, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and the regulations promulgated thereunder.

Registered Notes may be offered or sold within the United States only to persons who are QIBs in transactions exempt from registration under the Securities Act in reliance on Rule 144A or any other applicable exemption. Prospective purchasers are hereby notified that sellers of Registered Notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.

Each purchaser or holder of Notes represented by a Rule 144A Global Note or any Notes issued in registered form in exchange or substitution therefor (together "*Legended Notes*") will be deemed, by its acceptance or purchase of any such Legended Notes, to have made certain representations and agreements intended to restrict the resale or other transfer of such Notes as set out in "*Subscription and Sale and Transfer and Selling Restrictions*". Unless otherwise stated, terms used in this paragraph have the meanings given to them in "*Form of the Notes*".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER HAPTER 421-B ISTRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with any resales or other transfers of Notes that are "restricted securities" within the meaning of the Securities Act, each Obligor has undertaken in a deed poll dated 21 October 2010 (the "**Deed Poll**") to furnish, upon the request of a holder of such Notes or any beneficial interest therein, to such holder or to a prospective purchaser designated by him, the information required to be delivered under Rule 144A(d)(4) under the Securities Act if, at the time of the request, any of the Notes remain outstanding as "restricted securities" within the meaning of Rule 144(a)(3) of the Securities Act and the relevant Obligor is neither a reporting company under Section 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended, (the "**Exchange Act**") nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

ADCB Finance Cayman is a corporation organised under the laws of the Cayman Islands and ADCB is a corporation organised under the laws of the United Arab Emirates (the "**UAE**"). All of the officers and directors of the Obligors named herein reside outside the United States and all or a substantial portion of the assets of each Obligor and its officers and directors are located outside the United States. As a result:

- it may not be possible for investors to effect service of process outside the Cayman Islands upon ADCB Finance Cayman or its officers and directors, or to enforce judgments against them predicated upon United States federal securities laws; and

- it may not be possible for investors to effect service of process outside the UAE upon ADCB or its officers and directors, or to enforce judgments against them predicated upon United States federal securities laws.

The Notes and the Guarantee are governed by English law and disputes in respect of them may be settled by arbitration under the London Court of International Arbitration ("**LCIA**") Rules in London, England. In addition, actions in respect of the Notes and the Guarantee may be brought in the English courts.

In the absence of any bilateral treaty for the reciprocal enforcement of foreign judgments, the Abu Dhabi courts are unlikely to enforce an English judgment without re-examining the merits of the claim and may not observe the choice by the parties of English law as the governing law of the Notes and the

Guarantee. Investors may have difficulties in enforcing any English judgments or arbitration awards against the Obligors in the courts of Abu Dhabi, see "*Risk Factors – Risks Relating to the UAE and the Middle East*".

NOTICE TO BAHRAIN RESIDENTS

The Central Bank of Bahrain and the Bahrain Stock Exchange assume no responsibility for the accuracy and completeness of the statements and information contained in this Base Prospectus and expressly disclaim any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Base Prospectus. Each potential investor resident in Bahrain intending to subscribe Notes (each, a "**potential investor**") may be required to provide satisfactory evidence of identity and, if so required, the source of funds to purchase Notes within a reasonable time period determined by the relevant Obligors and the Dealers. Pending the provision of such evidence, an application to subscribe for Notes will be postponed. If a potential investor fails to provide satisfactory evidence within the time specified, or if a potential investor provides evidence but none of the relevant Obligors or the Dealers are satisfied therewith, its application to subscribe for Notes may be rejected in which event any money received by way of application will be returned to the potential investor (without any additional amount added thereto and at the risk and expense of such potential investor). In respect of any potential investors, the relevant Obligors will comply with Bahrain's Legislative Decree No. (4) of 2001 with respect to Prohibition and Combating of Money Laundering and various Ministerial Orders issued thereunder including, but not limited to, Ministerial Order No. (7) of 2001 with respect to Institutions' Obligations Concerning the Prohibition and Combating of Money Laundering.

KINGDOM OF SAUDI ARABIA NOTICE

This Base Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Offers of Securities Regulations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Capital Market Authority**").

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Base Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus. Prospective purchasers of Notes issued under the Programme should conduct their own due diligence on the accuracy of the information relating to the Notes. If a prospective purchaser does not understand the contents of this Base Prospectus he or she should consult an authorised financial adviser.

STABILISATION

In connection with the issue of any Tranche of Notes, the Dealer or Dealers (if any) named as the stabilising manager(s) (the "Stabilising Manager") (or persons acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or persons acting on behalf of a Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the final terms of the offer of the relevant Tranche of Notes is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche of Notes and 60 days after the date of the allotment of the relevant Tranche of Notes. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or person(s) acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of financial information

ADCB prepared its consolidated financial statements as of and for the financial years ended 31 December 2009, 2008 and 2007 (the "**Year-End Financial Statements**"), which are included in this document, in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("**IFRS**").

ADCB prepared its unaudited condensed consolidated financial statements as of and for the six months ended 30 June 2010, which are included in this document, in accordance with International Accounting Standard ("**IAS**") No. 34, "Interim Financial Reporting" ("**Interim Financial Statements**" and, together with the Year End Financial Statements, the "**Financial Statements**"). Financial information for the six months ended 30 June 2010 and 30 June 2009 are derived from the Interim Financial Statements.

ADCB adopted IAS 1 Revised, "Presentation of Financial Statements" and IFRS 8, "Segment Reporting" on 1 January 2009. As a result of the adoption of these standards, ADCB's 2009 Year-End Financial Statements and Interim Financial Statements differ from the 2008 and 2007 Year-End Financial Statements as follows:

(i) The balance sheet has been renamed a statement of financial position and a statement of other comprehensive income has been added to the financial statements; and

(ii) Segment reporting has been modified to reflect how management analyses its business. This has resulted in a change in the reported segments from commercial banking and investment banking segments to consumer banking, wholesale banking and treasury & investment segments. For more information see Note 19 to the Bank's Interim Financial Statements.

Certain conventions

Certain figures and percentages included in this Base Prospectus have been subject to rounding adjustments; accordingly figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

All references in this Base Prospectus to **U.S. dollars**, **U.S.$** and **$** refer to United States dollars being the legal currency for the time being of the United States of America and all references to **dirham** and **AED** refer to UAE dirham being the legal currency for the time being of the UAE. In addition, references to **euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

This dirham has been pegged to the U.S. dollar since 22 November 1980. The current midpoint between the official buying and selling rates for the dirham is at a fixed rate of AED 3.6725 = U.S.$1.00.

FORWARD LOOKING STATEMENTS

Some statements in this Base Prospectus may be deemed to be forward looking statements. Forward looking statements include statements concerning ADCB's plans, objectives, goals, strategies, future operations and performance and the assumptions underlying these forward looking statements. When used in this document, the words "anticipates", "estimates", "expects", "believes", "intends", "plans", "aims", "seeks", "may", "will", "should" and any similar expressions generally identify forward looking statements. These forward looking statements are contained in the sections entitled "Risk Factors" and "Business Description" and other sections of this Base Prospectus. ADCB has based these forward looking statements on the current view of its management with respect to future events and financial performance. Although ADCB believes that the expectations, estimates and projections reflected in its forward looking statements are reasonable as of the date of this Base Prospectus, if one or more of the risks or uncertainties materialise, including those which ADCB has identified in this Base Prospectus, or if any of ADCB's underlying assumptions prove to be incomplete or inaccurate, ADCB's actual results of operation may vary from those expected, estimated or predicted.

The risks and uncertainties referred to above include:

- macro-economic and financial market conditions and, in particular, the global financial crisis which has materially adversely affected and may continue to materially adversely affect ADCB's business, results of operations, financial condition and prospects;

- credit risks, including the impact of a higher level of credit defaults arising from adverse economic conditions, ADCB's ability to successfully re-price and restructure loans, the impact of provisions and impairments and concentration of ADCB's loan portfolio;

- liquidity risks, including the inability of ADCB to meet its contractual and contingent cash flow obligations or the inability to fund its operations;

- changes in interest rates and other market conditions, including changes in LIBOR, EIBOR, spreads and net interest margins;

- neither the Government of Abu Dhabi (the "**Government**") nor the UAE federal government is under any obligation to continue to invest in, or otherwise engage in business with, ADCB and either or both may alter their respective relationships with ADCB at any time and for any reason;

- the interests of ADCB's controlling shareholder may conflict with the commercial interests of ADCB, which may also conflict with the interests of the Noteholders; and

- ADCB is subject to political and economic conditions in Abu Dhabi, the UAE and the Middle East.

Additional factors that could cause actual results, performance or achievements to differ materially include, but are not limited to, those discussed in "*Risk Factors*".

These forward looking statements speak only as at the date of this Base Prospectus. Without prejudice to any requirements under applicable laws and regulations, ADCB expressly disclaims any obligations or undertaking to disseminate after the date of this Base Prospectus any updates or revisions to any forward looking statements contained herein to reflect any change in expectations thereof or any change in events, conditions or circumstances on which any such forward looking statement is based.

PRESENTATION OF STATISTICAL, MARKET AND INDUSTRY INFORMATION

Market data used in this Base Prospectus has been obtained from ADCB's internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications. Market research, publicly available information and industry publications generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Each of the Obligors confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by the relevant sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. However, it accepts no further or other responsibility in respect of the accuracy or completeness of such information.

In particular, the statistical information in the sections entitled "*Overview of the UAE*" and "*Economy of Abu Dhabi*" has been derived from a number of different identified sources. All statistical information provided in that section may differ from that produced by other sources for a variety of reasons, including the use of different definitions and cut-off times. The data set out in that section relating to Abu Dhabi's gross domestic product ("**GDP**") for 2009 is preliminary and subject to change. In addition, GDP data for 2008 is not final and may be subject to revision in future periods and certain other historical GDP data set out in that section may also be subject to future adjustment.

Certain information under the headings "*Risk Factors*", "*Business*", "*Overview of the UAE*", "*Economy of Abu Dhabi*", "*UAE Monetary and Financial System*" and "*Book-entry Clearance Systems*" has been extracted from information provided by:

- Organization of the Petroleum Exporting Countries ("**OPEC**"), Colliers International, Jones Lang LaSalle CB Richard Ellis, DTZ and the Abu Dhabi Securities Exchange ("**ADX**"), in the case of "*Risk Factors*";

- the UAE, Abu Dhabi and Dubai governments, and the UAE Central Bank in the case of "*Business*";

- the International Monetary Fund ("**IMF**"), OPEC, UAE Central Bank, the Economist Intelligence Unit, Abu Dhabi National Oil Company, the UAE and Abu Dhabi governments, CB Richard Ellis, DTZ, Colliers International and Jones Lang LaSalle, in the case of "*Overview of the UAE*", "*Economy of Abu Dhabi*" and "*UAE Monetary and Financial System*"; and

- the clearing systems referred to therein, in the case of "*Book-entry Clearance Systems*".

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RISK FACTORS

Any investment in the Notes is subject to a number of risks and uncertainties. Prospective investors should consider carefully the risks and uncertainties associated with each Obligor's business and any investment in the Notes, together with all of the information that is included in this Base Prospectus, and should form their own view before making an investment decision with respect to the Notes. In particular, prospective investors should evaluate the risks and uncertainties referred to or described below, which may have a material adverse effect on each Obligor's business, results of operations, financial condition and prospects. Should one or more of the following events or circumstances occur at the same time or separately, the value of the Notes could decline and an investor might lose part or all of its investment.

Each of the Obligors believe that the factors described below represent the principal risks inherent in investing in the Notes, but the Obligors' inability to pay interest, principal or other amounts on or in connection with the Notes may occur for other reasons and the Obligors do not represent that the statements below regarding the risks of holding the Notes are exhaustive. Additional risks not presently known to the Obligors or that the Obligors currently deem immaterial may also impair each Obligor's ability to pay interest, principal or other amounts on or in connection with the Notes.

This Base Prospectus also contains forward-looking statements that involve risks and uncertainties. The Obligors' actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the risks faced by the Obligors described below and elsewhere in this Base Prospectus. See "Forward Looking Statements".

FACTORS THAT MAY AFFECT ADCB'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME AS ISSUER OR GUARANTOR

Risks relating to ADCB's business.

Difficult macro-economic and financial market conditions have affected and could continue to materially adversely affect ADCB's business, results of operations, financial condition and prospects.

Since the second half of 2007, disruptions in global capital and credit markets, coupled with the re-pricing of credit risk and the deterioration of the real estate markets in the United States, Europe, the UAE, the other countries of the Gulf Cooperation Council (the "**GCC**") and elsewhere, have created difficult conditions in the financial markets. These conditions have resulted in historically high levels of volatility across many markets (including capital markets), volatile commodity and real estate prices, decreased liquidity, widening of credit spreads and a lack of price transparency in certain markets and the failures of a number of financial institutions in the United States and Europe.

Although the countries of the GCC were affected by the global financial crisis in the second half of 2007, the most significant adverse effects only impacted the region in the second half of 2008. Since then, there has been a significant slowdown or reversal of the high rates of growth that had been experienced by many countries within the GCC and the UAE, especially in Dubai and to a lesser extent in Abu Dhabi. Consequently, certain sectors of the GCC economy that had benefited from the high rate of growth, such as real estate, construction and financial institutions, have been materially adversely affected by the crisis.

In response to the global financial crisis, governments and regulators in the UAE, Europe, the United States and other jurisdictions enacted legislation and took measures intended to help stabilise the financial system and increase the flow of credit to their economies. These measures included recapitalisation through the purchase of securities issued by financial institutions (including ordinary shares, preferred shares, or other hybrid or quasi-equity instruments), guarantees by governments outside of the UAE of debt issued by financial institutions, and government-sponsored mergers and acquisitions of and divestments by financial institutions. There can be no assurance that either these measures will continue to positively effect volatility and credit availability or that governments will continue to support recovery in this way. A worsening of current financial market conditions could lead to further decreases in investor and consumer confidence, further market volatility and decline, further economic disruption and, as a result, could have an adverse effect on ADCB's business, results of operations, financial condition and prospects.

As a result of these recent adverse market conditions, companies to which ADCB directly extends credit have experienced, and may continue to experience, decreased revenues, financial losses, insolvency, difficulty in obtaining access to financing and increased funding costs and some of these companies have been unable to meet their debt service obligations or other expenses as they become due, including amounts payable to ADCB. As a result, ADCB has experienced an increase in non-performing loans ("**NPLs**") and impairment allowances for doubtful loans and advances. In addition, since September 2007, ADCB recorded significant impairment allowances on its investments in structured finance assets such as collateralised debt obligations ("**CDOs**"), credit default swaps ("**CDSs**"), floating rate notes ("**FRNs**") (including structured investment vehicle notes ("**SIVs**")), as well as real estate structured assets, in each case related to collateral or asset classes primarily located in the United States and Europe. Such impairment allowances totalled AED 297.5 million for the six months ended 30 June 2010, AED 784.7 million for the year ended 31 December 2009 and AED 739.7 million for the year ended 31 December 2008. Although ADCB has reduced its exposure to these structured finance investment assets to some extent for the six months ended 30 June 2010 and has not made any new investment in such assets since the end of 2007, it has not eliminated such exposure and will continue to be affected by market conditions relating to such assets and asset classes. In particular, ADCB is in the process of restructuring the largest of its CDS exposures, which relates to a special purpose vehicle with a collateral pool comprised largely of collateralised debt obligations backed by a range of asset types from commercial property to financial institution Tier I debt. If this transaction is not successfully restructured, ADCB may be required to make significant further provisions against this exposure. Further, if current market conditions persist or worsen, ADCB may continue to incur additional impairment and experience increases in defaults by its debtors and impairment allowances on its investment securities and credit derivatives in the future. In addition, the global financial crisis and the resultant slowdown in transactional activities have resulted in lower treasury, investment banking, brokerage and other fee revenues, which have adversely affected ADCB's results of operations. No assurance can be given that the market conditions will improve, and if they do not, this could have a material adverse effect on ADCB's business, results of operations, financial condition and prospects.

ADCB's business, results of operations, financial condition and prospects have been adversely affected by credit risks and will likely continue to be affected by credit risks if economic conditions do not improve.

Credit risks have materially adversely affected and could continue to materially adversely affect ADCB's business, financial conditions, results of operations and prospects. Some of the credit risks currently facing ADCB are described in more detail below.

ADCB may experience a higher level of credit defaults arising from adverse changes in credit and recoverability that are inherent in ADCB's business.

As a result of the global financial crisis, adverse changes in consumer confidence levels, consumer spending, liquidity levels, bankruptcy rates and commercial and residential real estate prices, among other factors, have impacted ADCB's customers and counterparties, and, in certain cases, adversely affected their ability to repay their loans or other obligations to ADCB. This, in turn, along with increased market volatility and decreased pricing transparency, has adversely affected ADCB's credit risk profile. The percentage of ADCB's loan portfolio classified as NPLs was 1.1 per cent., 5.2 per cent. and 5.4 per cent. as at 31 December 2008 and 2009 and 30 June 2010, respectively. These higher levels of NPLs were partially attributable to ADCB's exposures to Saad Trading, Contracting & Financial Services Limited, and its subsidiaries and affiliates (together, the "**Saad Group**")) and Ahmad Hamad Algosaibi & Brothers Co., and its subsidiaries and affiliates (together, the "**Algosaibi Group**") and to higher levels of NPLs on ADCB's retail and wholesale portfolio. These NPLs do not reflect ADCB's exposures to Dubai World entities. For more information, see "*Risk Factors – Factors that may affect ADCB's ability to fulfil its obligations under notes issued under the Programme as Issuer or Guarantor – Risks relating to ADCB's business – If ADCB is unable to effectively control the level of, or successfully restructure, its non-performing loans with debtors in financial distress, or its allowances for loan impairment are insufficient to cover loan losses, ADCB's financial condition and results of operations could be adversely affected*". The global financial crisis has resulted in a higher level of write-offs and impairment allowances for credit losses, which have adversely affected ADCB's profits. Additionally, ADCB has incurred, and may continue to incur, a risk of counterparty default that arises, for example, from entering into swaps or other derivative contracts under which counterparties have financial obligations to make payments to ADCB. Although ADCB regularly reviews its credit exposures and has re-priced a major portion of its loan portfolio and restructured some of its loans under stress, events of default may continue to occur. The occurrence of these events has affected, and could continue to materially adversely affect, ADCB's business, results of operations, financial condition and prospects.

If ADCB is unable to effectively control the level of, or successfully restructure, its non-performing loans with debtors in financial distress, or its allowances for loan impairment are insufficient to cover loan losses, ADCB's financial condition and results of operations could be adversely affected.

As at 30 June 2010, ADCB had AED 6,732.9 million of NPLs and incurred impairment allowances of AED 1,686.8 million for the first half of 2010 to cover potential loan losses. As a consequence of adverse market conditions, ADCB has increasingly focused on restructuring its loans with debtors in financial distress and has provided for impaired loans by way of loan impairment allowances. In accordance with International Accounting Standards, ADCB is required to reflect the impairment calculated as an upfront charge to the income statement. This will be written back to the income statement as and when interest or principal (as appropriate) on the debt is received. However, the actual loan losses could be materially different from the loan impairment allowances. ADCB's management believes that the systems in place to implement ADCB's loan restructuring and loan loss impairment allowances are adequate and that the levels of impairment allowances for loans under stress, as at 30 June 2010 are sufficient to cover ADCB's potential loan losses as at that date.

In particular, ADCB has an exposure of AED 6,810 million in total to Dubai World group entities which are subject to restructuring proposals that are currently being finalized. The current offer from Dubai World would require an impairment charge for ADCB of AED 1,035.5 million or 15.2 per cent. of the Dubai World facilities. In anticipation of successful completion of the restructuring, this amount was included in full in ADCB's half yearly accounts ending 30 June 2010. Under the proposed restructuring, unpaid principal will be repaid in full over a longer tenor and at a lower rate of interest.

If ADCB fails to appropriately restructure or control the levels of, and adequately provide for, its loans under stress (including, in particular, those relating to Dubai World entities), ADCB may need to make further impairment charges and its business, results of operations, financial condition and prospects could be materially adversely affected.

A substantial increase in new impairment allowances or losses greater than the level of previously recorded impairment allowances for doubtful loans and advances could adversely affect ADCB's results of operations and financial condition.

In connection with lending activities, ADCB periodically establishes impairment allowances for loan losses, which are recorded in its income statement. ADCB's overall level of impairment allowances is based upon its assessment of prior loss experience, the volume and type of lending being conducted, collateral held, industry standards, past due loans, economic conditions and other factors related to the recoverability of various loans. Generally, ADCB will allocate progressively higher impairment allowances for each successive period while payments are overdue. Although ADCB endeavours to establish an appropriate level of impairment allowances based on its best estimate of the amount of expected loss, it may have to significantly increase its impairment allowances for loan losses in the future as a result of increases in non-performing assets, deteriorating economic conditions leading to increases in defaults and bankruptcies, or for other reasons.

As at the date of this Base Prospectus, the total amount of outstanding exposures (net of the amount realised on foreclosure on such collateral) was AED 1,208.4 million to the Saad Group and AED 639.6 million to the Algosaibi Group. These entities announced in March 2009 that they were experiencing serious financial difficulties. As a result, ADCB has established an allowance of AED 1,155.0 million for its exposures as at the date of this Base Prospectus. ADCB has also established an allowance of AED 1,035.5 million for a portion of its exposure to the Dubai World entities; ADCB's exposure to the Dubai World entities was AED 6,810 million as at 30 June 2010. Such provisions represented ADCB's best estimate of the expected losses as at 30 June 2010, based on information then available. The amount of ultimate losses may significantly vary from the impairment allowance recorded at 30 June 2010. For further information, see "*Business – Recent developments*". Any significant increase in impairment allowances for loan losses or a significant change in ADCB's estimate of the risk of loss inherent in its portfolio of non-impaired loans, as well as the occurrence of loan losses in excess of the impairment allowances allocated with respect thereto, would have an adverse effect on its business, results of operations, financial condition and prospects.

ADCB's loan and investment portfolios and deposit base are concentrated by geography and sector.

ADCB's loan portfolio is concentrated, geographically, in the UAE, where certain sectors (including the real estate and construction sectors) and certain regions (including Dubai) have been more significantly affected than others by the global financial crisis that commenced in the second half of 2007. See "*Risk Factors – Factors that may affect ADCB's ability to fulfil its obligations under notes issued under the Programme as Issuer or Guarantor – Difficult macro-economic and financial market conditions have affected and could continue to materially adversely affect ADCB's business, results of operations, financial condition and prospects*".

ADCB's concentration of loans to particular sectors such as real estate and construction is increased when considered in the aggregate with related sectors. ADCB's loans and advances constituted 71.3 per cent. of its total assets, or AED 118.7 billion, as at 30 June 2010. For more information, see "*Business Description – Stengths – Well situated to benefit from resilience and growth of the UAE Economy*". Of the total loans, around 60 per cent. are located in Abu Dhabi, 27 per cent. are located in Dubai, and the remaining 13 per cent. are located in other Emirates of UAE and outside UAE. ADCB's customer deposits (including Islamic deposits) constituted 65.5 per cent. of its total liabilities, or AED 96.8 billion, as at 30 June 2010, almost all of which were located in the UAE. As a result of the concentration of ADCB's loan and investment portfolios and deposit bases in the UAE, any deterioration in general economic conditions in the UAE or any failure of ADCB to effectively manage its risk concentrations could have a material adverse effect on its business, results of operations, financial condition and prospects.

ADCB may be materially adversely affected by a loss of business from key clients that represent a significant portion of its loans and deposits.

ADCB generates a significant proportion of its net operating income from certain key clients, including Government-controlled and Government-related entities, and members of the ruling family of Abu Dhabi and other high net worth individuals ("**HNWIs**") (including the controlled/affiliated entities of these individuals). The loss of all or a substantial portion of the business provided by one or more of these clients could have a material adverse effect on ADCB's business, results of operations, financial condition and prospects.

In addition, the financial condition and ongoing profitability of Government-controlled or Government-related entities largely depends upon Government spending and policy. Therefore ADCB is exposed to shifts in Governmental policy, over which it has no control, and which may have an adverse effect on its business, results of operations, financial condition and prospects.

Credit bureaus in the UAE and GCC in general are not well developed and any incomplete, unreliable or inaccurate information about ADCB's debtors' and account holders' financial standing, credit history and ability to repay could impair ADCB's ability to assess credit quality.

Substantially all of ADCB's debtors are located in the GCC and, in particular, the UAE. At present, there is typically little public information or financial data available regarding the debtors' credit and payment histories in this region, primarily due to borrowers' limited credit histories and the fact that credit bureaus in the UAE are under-developed. In addition, such credit bureaus typically do not provide the quality and quantity of information sought by ADCB. Although ADCB requires regular disclosure of its debtors' financial information, some debtors, especially HNWIs (including the controlled/affiliated entities of these individuals) and small to medium-sized enterprises ("**SMEs**"), do not, or are unable to, provide the quality and quantity of information sought by ADCB. Furthermore, such financial data may not always present a complete and comparable picture of each such debtor's financial condition. For example, the financial statements of ADCB's debtors (including HNWIs) are not (unless publicly listed) required to be presented in accordance with IFRS or audited in accordance with International Standards on Auditing. Furthermore, statistical and other data on ADCB's debtors may also be less complete than those available in jurisdictions with more mature financial markets. In the absence of meaningful statistical data on its existing and potential debtors, there can be no assurance as to ADCB's ability to accurately assess the credit quality of its loan portfolios. Accordingly, ADCB's failure to accurately assess the financial condition and creditworthiness of its debtors may result in an increase in the rate of default for ADCB's loan portfolio, which could have a material adverse effect on its business, results of operations, financial condition and prospects.

Security interests or loan guarantees provided in favour of ADCB may not be sufficient to cover any losses and may not be legally enforceable.

The practice of pledging assets (such as share portfolios in margin lending) to obtain a bank loan is subject to certain limitations and administrative restrictions under UAE law. In particular, such security may not be enforced without a court order. As a result, security over certain pledged assets may not be enforced. Accordingly, ADCB may have difficulty foreclosing on collateral or enforcing guarantees or other third party credit support arrangements when debtors default on their loans and would likely face further such difficulties if any of ADCB's key clients or shareholders were to default on their loans. See "*Risk Factors – Factors that may affect ADCB's ability to fulfil its obligations under Notes issued under the Programme as Issuer or Guarantor – ADCB's business, results of operations, financial condition and prospects have been affected by credit risks and will likely continue to be affected by credit risks if economic conditions do not improve*". ADCB may also be materially adversely affected by a loss of business from key clients that represent a significant portion of its loans and deposits.

In addition, even if such security interests are enforceable in UAE courts, the time and costs associated with enforcing security interests in the UAE may make it uneconomical for ADCB to pursue such proceedings, adversely affecting ADCB's ability to recover its loan losses. As at 30 June 2010, ADCB had a loan portfolio totalling AED 118.7 billion, 10.96 per cent. of which was secured by share pledges governed by UAE law. Such pledges were secured by general pledge documentation that may not be recognised by the UAE courts as perfecting security under UAE law and may thereby hinder or prevent ADCB from being able to exercise its rights over such shares.

ADCB typically requires additional collateral in the form of cash and/or other assets in situations where ADCB may not be able to exercise rights over pledged shares or where it enters into guarantees or other third party credit support arrangements for loans made to individuals and corporations. Any decline in the value or liquidity of such collateral may prevent ADCB from foreclosing on such collateral for its full value or at all in the event that a borrower becomes insolvent and enters bankruptcy, and could thereby adversely affect ADCB's ability to recover any losses.

The occurrence of any of the foregoing could have a material adverse effect on ADCB's business, results of operations, financial condition and prospects.

ADCB's business, results of operations, financial condition and prospects have been adversely affected by liquidity risks and will likely continue to be affected by liquidity risks if financial market conditions do not improve.

Liquidity risks could materially adversely affect ADCB's business, results of operations, financial conditions and prospects. Some of the liquidity risks currently facing ADCB are described in more detail below.

ADCB relies on short-term demand and time deposits as a major source of funding but primarily has medium- and long-term assets, which may result in asset-liability maturity gaps.

In common with other banks in the UAE, many of ADCB's liabilities are demand and time deposits whereas its assets are generally medium to long-term (such as loans and mortgages). Although ADCB has accessed wholesale funding markets (through bilateral or syndicated loans and international bond markets) since 2005 in order to diversify its funding sources, such short to medium-term borrowings have not eliminated asset-liability maturity gaps. As at 30 June 2010, approximately 66 per cent. of ADCB's funding (which comprises total liabilities and equity) had remaining maturities of one year or less or were payable on demand. As at 30 June 2010, ADCB had a negative cumulative maturity gap (more short-term liability than short-term assets) of AED 58.1 billion for the 12 months ending 30 June 2011. See "*Selected Financial Information of ADCB*". If a substantial portion of ADCB's depositors withdraw their demand deposits or do not roll over their time deposits upon maturity or ADCB fails to refinance some of its large short– to medium-term borrowings, ADCB may need to access more expensive sources to meet its funding requirements. No assurance can be given that ADCB will be able to obtain additional funding on commercially reasonable terms as and when required, or at all. ADCB's inability to refinance or replace such deposits with alternative funding could materially adversely affect ADCB's liquidity, business, results of operations, financial condition and prospects.

ADCB's cash flow from its operations may not be sufficient at all times to meet its contractual and contingent payment obligations.

If ADCB's cash flow from its operations is not sufficient to meet its short– and medium-term contractual and contingent payment obligations coming due, it could experience liquidity issues. Such liquidity issues could occur if ADCB's available liquidity is not sufficient to enable it to service its debt, fulfil loan commitments or meet other on– or off-balance sheet payment obligations on specific dates, even if ADCB continues to receive new deposits from customers, proceeds from new financings or its future revenue streams. Such liquidity issues could also arise if there is an unexpected outflow of customer deposits or if ADCB is unable to secure short-term funding to bridge this funding gap. If ADCB defaults on any contractual or contingent payment obligation, such default could have a material adverse effect on its business, results of operations, financial condition and prospects.

ADCB's business, results of operations, financial condition and prospects have been affected by market risks and will likely continue to be affected by market risks if economic conditions do not improve.

Market risks have adversely affected and could continue to adversely affect ADCB's business, results of operations, financial conditions and prospects. Some of the market risks currently facing ADCB are described in more detail below.

Changes in interest rate levels may affect ADCB's net interest margins and borrowing costs, and the value of assets sensitive to interest rates and spread changes may be adversely affected.

As a result of the global financial crisis, there has been a shortage of liquidity in markets that are sources of funding for ADCB, which has contributed to an increase in ADCB's marginal borrowing costs. The increase in interbank reference rates has also affected the value of certain assets that are subject to changes in applicable interest rates. As at 30 June 2010, ADCB's borrowings were largely set at floating rates based on interbank reference rates, such as 3-month LIBOR and 3-month EIBOR, plus a specified margin. If interbank reference rates rise, the interest payable on ADCB's floating rate borrowings increases. In addition, the marginal cost of funding is currently higher than has been the case historically. ADCB's marginal cost of funding could rise further as a result of a variety of factors, including further deterioration of conditions in the financial markets or further loss of confidence by and between financial institutions. If ADCB fails to pass on such increase in funding cost to its customers in a timely manner or at all due to market, competitive or other conditions, it could have a material adverse effect on its business, results of operations, financial condition and prospects.

Changes in equity and debt securities prices may affect the values of ADCB's remaining investment portfolios.

ADCB continues to hold investment securities and a decrease in the realised and unrealised fair value investment gains on such investment securities has had a material adverse impact and will continue to have a material adverse impact on its financial condition and results of operations. As at each reporting period, ADCB records such gains and losses at (i) their market value relative to the carrying value at the time such securities are sold in the case of dispositions; or (ii) their fair value as marked-to-market or as marked-to-model in the case of any impairment to investment securities it continues to hold. The amounts of such gains and losses may fluctuate considerably from period to period. The level of fluctuation depends, in part, upon the market value of the securities, which in turn may vary considerably, and ADCB's investment policies. ADCB cannot predict the amount of realised or unrealised gain or loss for any future period, and variations from period to period are not indicative of future performance. Gains on ADCB's investment portfolio may not continue to contribute to net income at levels consistent with those from recent periods or at all.

Neither the Government nor the UAE federal government is under any obligation to continue to invest in or otherwise engage in business with ADCB and either or both may alter their respective relationships with ADCB at any time and for any reason.

ADCB was incorporated in 1985 by Resolution No. 90 of the Executive Council of the Government. The Government has through the Abu Dhabi Investments Council (the "**Council**") held at least 64.8 per cent. of ADCB's share capital and maintained significant deposits with ADCB throughout ADCB's history. During the very difficult period that occurred from late 2008 to early 2009 of the global financial crisis, the Government (through its purchase of ADCB's Tier I notes) provided a total of AED 4.0 billion in Tier I capital to ADCB. The UAE federal government also provided AED 6.6 billion in Tier II capital to ADCB. Despite the Government's and the UAE federal government's past investments in and deposits with ADCB and funding support, particularly during the global financial crisis, neither the Government nor the UAE federal government are under any obligation to continue to invest in, make deposits with, do business with or otherwise support ADCB. The Government and the UAE federal government may, whether directly or through government-owned entities, at any time and for any reason, dispose of its investments in, withdraw its deposits from, cease to do business with or otherwise cease to support ADCB. The reduction or elimination of government support could have a material adverse effect on ADCB's business, results of operations, financial condition and prospects.

The Notes will not be guaranteed by the Government of Abu Dhabi.

As discussed above, the Government, through the Council, is a majority shareholder in ADCB. Like any other shareholder, the Government has no legal obligation to provide additional funding for any of ADCB's future operations. The Government is not providing a guarantee of any of ADCB's obligations in respect of Notes to be issued under the Programme, nor is the Government under any obligation to purchase any of ADCB's liabilities or guarantee any of ADCB's obligations, and the Noteholders therefore do not benefit from any legally enforceable claim against the Government.

The interests of ADCB's controlling shareholder may conflict with the commercial interests of ADCB, which may also conflict with the interests of the Noteholders.

The Government, through the Council, holds a 64.8 per cent. ownership interest in ADCB as at the date of this Base Prospectus. As a result, the Government has the ability to block actions or resolutions proposed at ADCB's annual or extraordinary general meetings. Accordingly, the Government could cause ADCB to pursue transactions, make dividend payments or other distributions or payments to shareholders or undertake other actions to implement the policy of the Government rather than to foster the commercial interests of ADCB.

In addition, many of ADCB's largest customers are Government-related entities whose businesses depend, in large part, on Government spending and policy. Although it is ADCB's policy that transactions with parties related to, or affiliated with, its controlling shareholder are priced at market rates, are otherwise undertaken on an arm's length basis and are subject to the same loan or account approval procedures and limits as applied by ADCB to transactions with parties not related to or affiliated with the Government, there can be no assurance that any and all such credit or credit support will be extended to related parties on the above basis and terms. In some cases, ADCB may enter into transactions with such entities with a view to long-term, mutually beneficial relationships, even if ADCB may not achieve short-term profit maximisation from such transactions. Moreover, although ADCB has not experienced pressure from its controlling shareholder to date to conduct transactions upon more favourable terms with Government-owned or controlled legal entities or to deviate from its credit and lending policies and procedures, there is no guarantee that ADCB may not come under pressure to pursue certain non-core activities, engage in activities with a lower profit margin than it would otherwise pursue or to provide financing to certain companies or entities on favourable or non-market terms. Such activities could have a material adverse effect on ADCB's business, results or operations, financial condition and prospects.

If ADCB were unable to retain key members of its senior management and/or remove under performing UAE national staff and/or hire new qualified personnel in a timely manner, this could have an adverse effect on the business of ADCB.

ADCB's ability to maintain and grow its business will depend, in part, on its ability to continue to recruit and retain qualified and experienced banking and management personnel. ADCB is likely to face challenges in recruiting qualified personnel to manage its business. In common with other banks in the UAE, ADCB experiences a shortage of qualified employees residing in the UAE, which requires it to recruit from outside the UAE. In addition, even after hiring its employees, ADCB has faced challenges in retaining such employees due to the continued recruitment efforts of its competitors. ADCB's competitors have been aggressively targeting ADCB employees in recent years by offering more attractive compensation packages. For the years ended 31 December 2009, 2008, and 2007, ADCB experienced employee attrition rates of approximately 9.0 per cent., 20.0 per cent., and 19.0 per cent. respectively. Additionally, if ADCB continues to grow, it will need to continue to increase its number of employees. ADCB is guided in its human resources decisions by the UAE federal government's recommended policy that companies operating in the UAE recruit UAE nationals representing at least 4 per cent. of their total employees each year. The UAE federal government's policy supporting the recruitment of UAE nationals does not set any upper limit at which the policy would no longer be applicable. See "*Business – Emiratisation*". As at 31 December 2009, UAE nationals represented 35.7

per cent. of ADCB's total workforce. If ADCB is not able to meet or exceed the UAE federal government's recommended policy for recruiting UAE nationals, it may be subject to legal penalties, including with respect to its current licenses, and it may be prevented from obtaining additional licenses necessary in order to allow it to expand its business. Due to UAE federal labour laws, ADCB may face difficulties that could delay or prevent dismissal of a UAE national employee if it finds such an employee's performance to be unsatisfactory. While ADCB believes that it has effective staff recruitment, training and incentive programmes in place, its failure to recruit, train and/or retain necessary personnel, its inability to dismiss certain employees or the shortage of qualified UAE nationals or other nationals prepared to relocate to the UAE, could have a material adverse effect on its business, results of operations, financial condition and prospects.

The increasingly competitive environment in the UAE banking industry may adversely affect ADCB's business and results of operations.

ADCB faces high levels of competition for all products and services. ADCB competes primarily with a large number of other domestic banks in the UAE, some of which are also owned, directly or indirectly, by the governments of the relevant Emirates, government-related entities or members of the ruling families of the relevant Emirates. As at 30 June 2010, there were a total of 51 banks registered in the UAE. ADCB's main domestic competitors in terms of size of banking franchise and product and customer segments comprise Emirates NBD, National Bank of Abu Dhabi, First Gulf Bank, Dubai Islamic Bank, Mashreq Bank, Union National Bank, Abu Dhabi Islamic Bank and HSBC. In the UAE market, ADCB currently has the third largest market share in terms of loans and deposits behind only Emirates NBD and National Bank of Abu Dhabi. There can be no assurance that ADCB will be able to maintain its current market share in the future.

In addition to the local commercial banks in the UAE, ADCB competes with a number of international banks in investment advisory, investment banking, corporate advisory, finance and other services. In the large corporate and government client segments, ADCB faces competition from international banks and such competition is expected to increase in the UAE over time. Although ADCB seeks to cooperate with some of the top-tier international banks, especially in securities underwriting and distribution, it will also compete with them in other areas, particularly in corporate advisory and treasury operations in which these banks have a long history of successful operations in other regions. If ADCB is unable to compete successfully, it could adversely impact ADCB's business, results of operations, financial condition and prospects.

ADCB has significant off-balance sheet credit-related commitments that may lead to potential losses.

As part of its normal banking business, ADCB issues revocable and irrevocable commitments to extend credit, guarantees, letters of credit and other financial facilities and makes commitments to invest in securities before such commitments have been fully funded. All of these are accounted for off-balance sheet until such time as they are actually funded. Although these commitments are contingent and therefore off-balance sheet, they nonetheless subject ADCB to related credit, liquidity and market risks. Credit-related commitments are subject to the same credit approval terms and compliance procedures as loans and advances, and commitments to extend credit are contingent on customers maintaining required credit standards. Although ADCB anticipates that not all of its obligations in respect of these commitments will be triggered, it may have to make payments in respect of a substantial portion of such commitments, which could have a material adverse effect on its financial position, and in particular its liquidity position. As at 30 June 2010, ADCB had AED 37.9 billion in such contingent liabilities.

ADCB's risk management and internal controls may leave it exposed to unidentified or unanticipated risks, which could result in material losses.

In the course of its business activities, ADCB is exposed to a variety of risks, the most significant of which are credit risk, market risk, liquidity risk and operational risk. See "*Risk Management – Quantitative and qualitative disclosures about risk*". Investors should note that any failure to adequately control these risks could result in material adverse effects on ADCB's business, results of operations, financial condition and prospects, as well as its general reputation in the market.

ADCB's risk management techniques may not be fully effective or consistently implemented in mitigating its exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated. Some of ADCB's methods of managing risk are based upon its use of historical market behaviour. As evidenced by the global financial crisis, these methods may not always predict future risk exposures, which could be significantly greater than historical measures indicate. Other risk management practices, including "know your client" practices, depend upon evaluation of information regarding the markets in which ADCB operates, its clients or other matters that are publicly available or information otherwise accessible to ADCB. As such practices are less developed in the GCC than they are in other markets and may not have been consistently and thoroughly implemented in the past, this information may not be accurate, complete, up-to-date or properly evaluated in all cases. There can be no assurance that ADCB's risk management and internal control policies and procedures will adequately control, or protect ADCB against, all credit, liquidity, market and other risks. In addition, certain risks could be greater than ADCB's empirical data would otherwise indicate. ADCB also cannot give assurance that all of its staff have adhered or will adhere to its risk policies and procedures.

ADCB is susceptible to, amongst other things, failure of internal processes or systems, unauthorised transactions by employees and operational errors, including clerical or record keeping errors or errors resulting from faulty computer or telecommunications systems, and fraud by employees or outsiders. See "*Risk Factors – Factors that may affect ADCB's ability to fulfil its obligations under notes issued under the Programme as Issuer or Guarantor – ADCB's business may be adversely affected if there is any disturbance to its operational systems or a loss of business continuity.*" ADCB's risk management and internal control capabilities are also limited by the information tools and technologies available to it. Any material deficiency in ADCB's risk management or other internal control policies or procedures may expose it to significant credit, liquidity, market or operational risk, which may in turn have a material adverse effect on ADCB's business, results of operations, financial condition and prospects.

Notwithstanding the foregoing, both ADCB and ADCB Finance Cayman believe that their respective financial and other systems are sufficient to ensure compliance with the Disclosure and Transparency Rules of the UKLA in respect of any Notes issued under the Programme which are admitted to the Official List.

ADCB's business may be adversely affected if there is any disturbance to its operational systems or a loss of business continuity.

ADCB operates in businesses that are highly dependent on information systems and technologies and relies heavily on its financial, accounting and other data processing systems. If any of these systems do not operate properly or are disabled, ADCB could suffer financial loss, a disruption of its business, liability to clients, regulatory intervention and reputational damage. In addition, ADCB's current information systems and technologies may not continue to be able to accommodate ADCB's growth unless ADCB continues to invest in upgrading its operational systems. Such a failure to accommodate growth, or an increase in costs related to such information systems, would have a material adverse effect on ADCB's business. The cost of improving or upgrading such systems and technologies may be substantial and the cost of maintaining such systems is likely to increase from its current level. ADCB's business operations and business processes are vulnerable to damage or interruption from fires, floods, extreme weather, power loss, bomb threats, explosions or other forms of terrorist activity and other natural and man-made disasters or other extreme events. These systems may also be subject to criminal damage, vandalism, theft and similar wrongdoing. While ADCB currently has a disaster recovery system in place, it is currently in the process of developing a comprehensive emergency back-up IT operational system and facility to ensure the continuity of fully-functioning business operations in the event of major business disruption for any reason, including natural or man-made disasters. If there is a disaster or other disruption and the disaster recovery plans are found to be inadequate, there could be an adverse impact on ADCB's business, results of operations, financial condition and prospects.

Further, ADCB relies on third-party service providers for certain aspects of its business, including Oracle, Reuters, Bloomberg, SWIFT and FERMAT. Any interruption or deterioration in the performance of these third parties or failures of their information systems and technology could impair the quality of ADCB's operations and could impact its reputation. If any of the foregoing were to occur, it could materially adversely affect ADCB's businesses, results of operations, financial condition and prospects. Notwithstanding anything in this risk factor, this risk factor should not be taken as implying that either the Issuer or the Guarantor will be unable to comply with its obligations as a company with securities admitted to the Official List.

ADCB's interest in its associate RHB Capital Berhad may not be aligned with the interests of other RHB Capital Berhad shareholders or its board of directors.

As ADCB does not exercise control over RHB Capital Berhad ("**RHBC**"), ADCB may have differences in views with RHBC's other shareholders or its board of directors, whose interests could be adverse to those of ADCB. In addition, if RHBC does not align its strategy and operations with those of ADCB, it may not be able to achieve the financial benefits anticipated by the investment or recover its investment, which could have a material adverse effect on its business, results of operations, financial condition and prospects.

ADCB is exposed to risk of loss as a result of employee misrepresentation, misconduct and improper practice.

ADCB's employees could engage in misrepresentation, misconduct or improper practice that could expose ADCB to direct and indirect financial loss and damage to its reputation. Such practices may include embezzling clients' funds, engaging in corrupt or illegal practices to originate further business, intentionally or inadvertently releasing confidential information about clients or failing to follow internal procedures. It is not always possible to detect or deter employee misconduct, and the precautions ADCB takes to detect and prevent misconduct may not be effective in all cases. There can be no assurance that measures undertaken to combat employee misconduct will be successful. Such actions by employees could expose ADCB to financial losses resulting from the need to reimburse clients, co-investors or other business partners who suffered loss or as a result of fines or other regulatory sanctions, and could damage ADCB's reputation, which would in turn materially adversely affect ADCB's business, results of operations, financial condition and prospects.

Future events may be different than those reflected in the management assumptions and estimates used in the preparation of ADCB's financial statements, which may cause unexpected losses in the future.

Pursuant to IFRS rules and interpretations in effect as of the present date, ADCB is required to use certain estimates in preparing its financial statements, including accounting estimates to determine loan loss reserves and the fair value of certain assets and liabilities, among other items. Should the estimated values for such items prove substantially inaccurate, particularly because of significant and unexpected market movements, or if the methods by which such values were determined are revised in future IFRS rules or interpretations, ADCB may experience unexpected losses.

ADCB is exposed to risk of loss relating to its real estate property as a result of market movements and/or the interplay between ADCB's ownership structure, Abu Dhabi real estate foreign ownership restrictions and UAE laws of inheritance.

Under Abu Dhabi law, except in certain restricted areas, only UAE nationals can hold real estate. Because ADCB is not wholly owned by UAE nationals, it is not able to be registered as an owner of real estate situated in Abu Dhabi outside unrestricted areas. This does not apply to ADCB's current headquarters and certain other plots, which were historically registered in ADCB's name. ADCB has, on occasion, resolved this issue by arranging for a director or executive to hold property located in Abu Dhabi on behalf of ADCB. While this arrangement has proven an effective means of complying with Abu Dhabi law, it exposes ADCB to certain risks with respect to certain real estate properties, including the risk of such property passing to the custodian's heirs under Sharia law. As at 30 June 2010, Jasem Al Darmaki, ADCB's former head of government banking, and companies associated with him, held ADCB properties located in the UAE as custodian for ADCB, including sites located at Capital Centre and Al Nahyan Camp. If ADCB loses its ownership interest in, or loses any proceeds from, any of these real estate properties as a result of the foregoing, it could materially adversely affect ADCB's business, results of operations and financial condition.

ADCB's insurance coverage may not be adequate.

ADCB maintains insurance cover against certain insurable commercial banking risks. During recent years, ADCB did not materially change its risks covered or coverage limits, particularly during a period in which the scope and volume of ADCB's business increased significantly. Whilst the management has recently taken steps to address this issue, the degree of insurance coverage of ADCB may not match its current risk profile. If ADCB incurs a material loss as a result of inadequate coverage, it could materially adversely affect ADCB's business, results of operations, financial condition and prospects.

ADCB may fail to realise the business growth opportunities, revenue benefits, cost synergies, operational efficiencies and other benefits anticipated from, or may incur unanticipated costs associated with, its acquisition of certain consumer and SME banking businesses of RBS.

ADCB has acquired certain consumer and SME banking businesses of The Royal Bank of Scotland plc ("**RBS**") in the United Arab Emirates (see "*Business Activities – ADCB's acquisition of RBS certain consumer and SME banking businesses of RBS in the UAE*"). ADCB believes that it will achieve cost synergies as well as other operating efficiencies and business growth opportunities, revenue benefits and other benefits from the acquisition.

However, these expected business growth opportunities, revenue benefits, cost synergies and other operational efficiencies and benefits may not develop because, among other reasons, the assumptions upon which ADCB based its decision to execute the acquisition consideration may prove to be incorrect. For example, the expected cost synergies were calculated by ADCB on the basis of the existing and projected cost and operating structures of ADCB and its estimate of the existing and projected cost and operating structures of the acquired assets. Statements of estimated synergies and other effectiveness and calculations of the costs of achieving them relate to future actions and circumstances which, by their nature, involve risks, uncertainties, contingencies and other factors. As a result, the synergies and other efficiencies referred to may not be achieved, or those achieved may be materially different from those estimated.

ADCB may also face challenges with respect to retaining customers, including customers who had maintained bank accounts with RBS on the basis that it was a foreign (non-UAE based) bank. Under any of these circumstances, the business growth opportunities, revenue benefits, cost savings and other benefits anticipated by ADCB to result from the acquisition may not be achieved as expected, or at all, or may be delayed. To the extent that ADCB incurs higher integration costs or achieves lower revenue benefits or fewer cost savings than expected, its operating results, financial condition and prospects may suffer.

Regulatory risks

ADCB is a highly regulated entity and changes to applicable laws or regulations, the interpretation or enforcement of such laws or regulations or the failure to comply with such laws or regulations could have an adverse impact on ADCB's business.

ADCB is subject to a number of prudential and regulatory controls designed to maintain the safety and soundness of banks, ensure their compliance with economic, social and other objectives and limit their exposure to risk. These regulations include UAE federal laws and regulations (particularly those of the UAE federal government and the UAE Central Bank), as well as the laws and regulations of the other countries in which ADCB operates, such as India. In particular (but without limitation), ADCB is subject to the following legal restrictions:

- total real estate and construction financing may not exceed 20 per cent. of ADCB's customer deposits;
- credit limit for a single customer may not, without approval from the Board and the Central Bank, exceed 7 per cent. of ADCB's capital and reserves;
- credit limit for a major shareholder and its credit group may not, without approval from the Board and the Central Bank, exceed 7 per cent. of ADCB's capital and reserves;
- concentration limits on total credit and other risk exposures to retail customers, banks, investments and country exposure;
- minimum capital adequacy ratio (the "**CAR**") of 12 per cent.;
- minimum Tier I ratio of 8 per cent.;
- total loans and advances and interbank placements' over ADCB's stable resources (comprising deposits and borrowed funds with maturities of greater than six months and net shareholders' equity) ("**Loans to Stable Resources Ratio**") cannot exceed 100 per cent.;

- recommended employment of at least 4 per cent. UAE nationals within ADCB, in accordance with Federal Cabinet Resolution No. 1-259 of 2004; and/or

- mandatory cash reserve of 14 per cent. of all current, call and savings deposits and 1 per cent. of all time deposits, respectively, based on balances as at the 15th of each month pursuant to the Central Bank Circular dated 9 December 2000.

Such regulations may limit ADCB's ability to increase its loan portfolio or raise capital or may increase ADCB's cost of doing business. In addition, as a result of the current financial crisis, the regulations currently governing UAE commercial banks are being reviewed, which may lead to the establishment of more stringent regulations in the future. Any changes in laws and regulations and/or the manner in which they are interpreted or enforced may have a material adverse effect on ADCB's business, results of operations, financial condition and prospects. In particular, changes in Central Bank regulations or policy may affect ADCB's reserves, provisions, impairment allowances and other applicable ratios. Furthermore, non-compliance with regulatory guidelines could expose ADCB to potential liabilities and fines.

ADCB may not be able to fully comply with anti-money laundering, anti-terrorism and other regulations, which could result in governmental fines and a damaged reputation.

ADCB is required to comply with applicable anti-money laundering, anti-terrorism laws and other regulations. These laws and regulations require ADCB, among other things, to adopt and enforce "know your customer" policies and procedures and to report suspicious and large transactions to the applicable regulatory authorities. While ADCB has adopted policies and procedures aimed at detecting and preventing the use of its banking network for money laundering activities and by terrorists and terrorist-related organisations and individuals generally, such policies and procedures have in some cases only recently been adopted (and thus may not have been fully implemented or complied with in the past) and may not eliminate instances where ADCB may be used by other parties to engage in money laundering and other illegal or improper activities. To the extent ADCB may fail to fully comply with applicable laws and regulations, the relevant government agencies to which it reports have the power and authority to impose fines and other penalties on ADCB. In addition, ADCB's business and reputation could suffer if customers use ADCB for money laundering or illegal or improper purposes.

US persons investing in Notes may have indirect contact with countries sanctioned by the Office of Foreign Assets Control of the U.S. Department of Treasury as a result of ADCB's investments in and business with countries on the sanctions list.

The Office of Foreign Assets Control of the U.S. Department of Treasury ("**OFAC**") administers regulations that restrict the ability of US persons to invest in, or otherwise engage in business with, certain countries, including Iran and Sudan, and specially designated nationals (together "**Sanction Targets**"). As neither ADCB Finance Cayman nor ADCB is itself a Sanction Target, OFAC regulations do not prohibit US persons from investing in, or otherwise engaging in business with, either ADCB Finance Cayman or ADCB. However, to the extent that either ADCB Finance Cayman or ADCB invests in, or otherwise engages in business with, Sanction Targets, US persons investing in either ADCB Finance Cayman or ADCB may incur the risk of indirect contact with Sanction Targets. As a bank located in the UAE, ADCB is required to transact with other banks participating in the local clearing system. Such banks may include Sanction Targets. Save for transactions required by the participation in the local clearing system, ADCB's current policy is to only service existing obligations and actively reduce its exposures in Sanction Targets as quickly as possible. ADCB's current exposure to Sanction Targets is currently made up of two credit facilities extended to Iranian entities, which generate a minimal amount of interest income in relation to ADCB's total interest income. ADCB has set up discrete pre-funded accounts from which it intends to fulfil its obligations under these credit facilities in order to ensure that funds designated for these Iranian entities are not commingled with funds in the Bank's general accounts. Since the creation of these credit facilities, and save for transactions required by participation in the local clearing system, ADCB has not invested in or done business with Sanction Targets. To date, ADCB Finance Cayman has not made any investments in and has not engaged in any business with any Sanction Targets. However, to the extent that either ADCB or ADCB Finance Cayman increases its investments in or business with Sanction Targets, US persons investing in Notes issued by either entity may increase their risk of indirect contact with Sanction Targets and possible violations of OFAC sanctions.

Risks relating to the UAE and the Middle East

ADCB is subject to political and economic conditions in Abu Dhabi, the UAE and the Middle East.

The majority of ADCB's current operations and interests are located in the UAE. ADCB's results of operations are, and will continue to be, generally affected by financial, economic and political developments in or affecting Abu Dhabi, the UAE and the Middle East and, in particular, by the level of economic activity in Abu Dhabi, the UAE and the Middle East. It is not possible to predict the occurrence of events or circumstances, such as war or hostilities, or the impact of such occurrences, and no assurance can be given that ADCB would be able to sustain the operation of its business if adverse political events or circumstances were to occur. A general downturn or instability in certain sectors of the UAE or the regional economy could have an adverse effect on ADCB's business, results of operations, financial condition and prospects. Investors should also note that ADCB's business and financial performance could be adversely affected by political, economic or related developments both within and outside the Middle East because of inter-relationships within the global financial markets. In addition, the implementation by the Government or the UAE federal government of restrictive fiscal or monetary policies or regulations, including changes with respect to interest rates, new legal interpretations of existing regulations or the introduction of taxation or exchange controls could have a material adverse effect on ADCB's business, financial condition and results of operations and thereby affect the Issuer's or the Guarantor's ability to perform its obligations in respect of any Notes.

While the UAE is seen as a relatively stable political environment, certain other jurisdictions in the Middle East are not. Instability in the Middle East may result from a number of factors, including government or military regime change, civil unrest or terrorism. Within the Middle East, extremists have engaged in a campaign, sometimes violent, against various governments in the region and terrorists have struck both military and civilian targets. There can be no assurance that extremists or terrorist groups will not escalate violent activities in the Middle East or that the governments of the Middle East will be successful in maintaining the prevailing levels of domestic order and stability. Any of the foregoing circumstances could have a material adverse effect on the political and economic stability of the Middle East and, in particular, could impact the numbers of tourists that choose to visit the UAE and the number of businesses interested in developing properties in the UAE and, consequently, could have an adverse effect on ADCB's business, results of operations, financial condition and prospects, and thereby affect ADCB's ability to perform its obligations in respect of any Notes.

Investors should also be aware that investments in emerging markets are subject to greater risks than those in more developed markets, including risks such as:

- political, social and economic instability;
- external acts of warfare and civil clashes;
- governments' actions or interventions, including tariffs, protectionism, subsidies, expropriation of assets and cancellation of contractual rights;
- regulatory, taxation and other changes in law;
- difficulties and delays in obtaining new permits and consents for business operations or renewing existing ones;
- potential lack of reliability as to title to real property; lack of infrastructure; and inability to repatriate profits and/or dividends.

Accordingly, investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, their investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved.

While there can be no assurance of economic growth in the UAE at levels it experienced before the global economic crisis, according to IMF economic data, the UAE is expected to return to growth in 2010 by 2.4 per cent. and in 2011 by 3.2 per cent. IMF World Economic Outlook (April 2010 and October 2010), reported that real GDP growth in the UAE increased by 6.1 per cent. in 2007, 5.1 per cent. in 2008 and decreased by 2.5 per cent. in 2009.

The UAE's economy is highly dependent upon its oil revenue.

The UAE's economy, and the economy of Abu Dhabi in particular, is highly dependent upon oil revenue. While Abu Dhabi is actively promoting tourism and real estate and undertaking several large scale development projects, the oil and gas industry dominates Abu Dhabi's economy and contributed approximately 49.4 per cent. to nominal GDP in 2009.

ADCB has historically received significant funding and other support from the Government and the UAE federal government. In the case of the Government, such funding and other support has been largely derived from the Government's significant oil revenues. Abu Dhabi has approximately 7 per cent. of proven global oil reserves which generated nearly 50 per cent. of its GDP in 2009 (source: Abu Dhabi Statistics Centre) and approximately 35 per cent. of the UAE's export earnings (including re-exports) in 2009 (source: UAE Central Bank). Despite high oil prices high oil prices between 2004 and 2008, oil prices declined significantly in the second half of 2008 and remained low for the first six months of 2009. Oil prices are expected to continue to fluctuate in the future in response to changes in many factors over which ADCB has no control. Factors that may affect the price of oil include, but are not limited to:

- economic and political developments in oil producing regions, particularly in the Middle East;
- global and regional supply and demand, and expectations regarding future supply and demand, for oil products;
- the ability of members of OPEC and other crude oil producing nations to agree upon and maintain specified global production levels and prices;
- the impact of international environmental regulations designed to reduce carbon emissions;
- other actions taken by major crude oil producing or consuming countries; prices and availability of alternative fuels, global economic and political conditions, prices and availability of new technologies using alternative fuels; and
- global weather and environmental conditions.

Declines in international prices for hydrocarbon products in the future could therefore adversely affect the availability of funding for ADCB from the Government and the UAE federal government which, in turn, could adversely affect ADCB's ability to fund its business and either Obligor's ability to perform its obligations in respect of any Notes.

Investors may experience difficulties in enforcing arbitration awards and foreign judgments in the UAE.

The payments under the Notes are dependent upon the relevant Obligors making payments to investors in the manner contemplated under the Notes. If any Obligor fails to do so, it may be necessary for an investor to bring an action against the relevant Obligor to enforce its obligations and/or to claim damages, as appropriate, which may be costly and time consuming.

Under current UAE law, the UAE courts are unlikely to enforce an English judgment without re-examining the merits of the claim and may not observe the parties' choice of English law as the governing law of the transaction. In the UAE, foreign law is required to be established as a question of fact and the interpretation of English law, by a court in the UAE, may not accord with the perception of an English court. In principle, courts in the UAE recognise the choice of foreign law if they are satisfied that an appropriate connection exists between the relevant transaction agreement and the foreign law which has been chosen. They will not, however, honour any provision of foreign law which is contrary to public policy, order or morals in the UAE, or to any mandatory law of, or applicable in, the UAE.

The UAE is a civil law jurisdiction and judicial precedents in the UAE have no binding effect on subsequent decisions. In addition, court decisions in the UAE are generally not recorded. These factors create greater judicial uncertainty.

The Notes, the Guarantee and the Agency Agreement are governed by English law and the parties to such documents have agreed to refer any unresolved dispute in relation to such documents to arbitration under the LCIA Rules.

The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**") entered into force in the UAE on 19 November 2006. Any arbitration award rendered in London should therefore be enforceable in Abu Dhabi in accordance with the terms of the New York Convention. Under the New York Convention, the UAE has an obligation to recognise and enforce foreign arbitration awards, unless the party opposing enforcement can prove one of the grounds under Article V of the New York Convention to refuse enforcement, or the UAE courts find that the subject matter of the dispute is not capable of settlement by arbitration or enforcement would be contrary to the public policy of the UAE. In practice, however, whether the UAE courts will enforce a foreign arbitration award in accordance with the terms of the New York Convention has yet to be tested.

There are limitations on the effectiveness of guarantees in the UAE and claims under a guarantee may be required to be made within a prescribed period.

As described above, the UAE courts are unlikely to enforce an English judgment without re-examining the merits of the claim, including the validity of the obligations of the parties contained in the underlying documentation. If an Abu Dhabi court were to re-examine the merits of a claim made against the Guarantor for payment under the Guarantee, notwithstanding that the Guarantee is governed by English law, the UAE court may interpret the Guarantee in light of UAE law principles rather than English law principles.

In order to enforce a guarantee under the laws of the UAE, the underlying debt obligation for which such guarantee has been granted may need to be proved before the UAE courts. In addition, under the laws of the UAE, the obligation of a guarantor is incidental to the obligations of the principal debtor, and the obligations of a guarantor will only be valid to the extent of the continuing obligations of the principal debtor (notwithstanding anything to the contrary included in the relevant guarantee). The laws of the UAE do not contemplate a guarantee by way of indemnity of the obligations of the debtor by the guarantor and instead contemplate a guarantee by way of suretyship. Accordingly, it is not possible to state with any certainty whether a guarantor could be obliged by the UAE courts to pay a greater sum than the debtor is obliged to pay or to perform an obligation that the debtor is not obligated to perform. Consequently, were a UAE court to re-examine the merits of a claim made against the Guarantor for payment under the Guarantee, if the Issuer's obligation to make payment under the Notes cannot be proven to the satisfaction of the UAE court, the court may conclude that there is no obligation on the Guarantor to make payment in the full amount claimed under the Guarantee.

Furthermore, notwithstanding that the Notes and the Guarantee are governed by English law, if a UAE court were to apply UAE law principles when assessing a claim in respect of the Guarantee, the Guarantor may be released from its obligations under the Guarantee if the relevant claim is not made within six months of payment becoming due under the Guarantee.

Any alteration to, or abolition of, the foreign exchange "peg" of the UAE dirham at a fixed exchange rate to the U.S. dollar will expose ADCB to U.S. dollar foreign exchange movements against the UAE dirham.

ADCB maintains its accounts, and reports its results, in UAE dirham. As at the date of this Base Prospectus, the UAE Dirham remains pegged to the U.S. dollar. However, there can be no assurance that the UAE dirham will not be de-pegged in the future or that the existing peg will not be adjusted in a manner that adversely affects ADCB's result of operations and financial condition. Any such de-pegging, particularly if the UAE Dirham weakens against the U.S. dollar, could have an adverse effect on ADCB's business, results of operations, financial condition and prospects, and thereby affect theObligors' ability to perform their obligations in respect of any Notes.

FACTORS THAT MAY AFFECT ADCB FINANCE CAYMAN'S ABILITY TO FULFIL ITS OBLIGATIONS UNDER NOTES ISSUED UNDER THE PROGRAMME

ADCB Finance Cayman has no operating history and no material assets of its own and is not expected to have any income except payments received from ADCB, which will be the only material source of funds available to meet the claims of the Noteholders.

ADCB Finance Cayman is a special-purpose company incorporated under the laws of the Cayman Islands as a limited liability company and has no operating history. ADCB Finance Cayman will not engage in any business activity other than the issuance of Notes under this Programme and the issuance of Notes under its US$7.5 billion Global Medium Term Programme, the issuance of shares of its capital and other activities incidental or related to the foregoing, including lending proceeds to ADCB. ADCB Finance Cayman is not expected to have any income except payments received from ADCB in respect of loans, which will be the only material source of funds available to meet the claims of the Noteholders against ADCB Finance Cayman.

As ADCB Finance Cayman is a Cayman Islands company, it may not be possible for Noteholders to effect service of process outside the Cayman Islands upon ADCB Finance Cayman or its officers and directors.

FACTORS WHICH ARE MATERIAL FOR THE PURPOSE OF ASSESSING THE MARKET RISKS ASSOCIATED WITH NOTES ISSUED UNDER THE PROGRAMME

Risks related to the structure of a particular issue of Notes

The Notes may be subject to optional redemption by the Issuer.

Any optional redemption feature that any Notes may include is likely to limit their market value. During any period when the Issuer may elect to redeem certain Notes, the market value of such Notes generally will not rise substantially above the price at which they may be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

The Notes may be redeemed prior to their final maturity date for tax reasons.

If the Issuer becomes obliged to pay any additional amounts in respect of the Notes as provided or referred to in Condition 9 of the Notes or the Guarantor is unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of a Relevant Tax Jurisdiction (as defined in Condition 9(e)(ii)) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes, the Issuer may redeem all but not some only of the outstanding Notes of such Tranche in accordance with Condition 8 of the Notes.

Index Linked Notes and Dual Currency Notes are subject to additional market risks.

The Issuer may issue Notes with principal or interest determined by reference to an index or formula, to changes in the prices of securities or commodities, to movements in currency exchange rates or other factors (each, a "**Relevant Factor**"). In addition, the Issuer may issue Notes with principal or interest payable in one or more currencies which may be different from the currency in which the Notes are denominated. Potential investors should be aware that:

- the market price of such Notes may be volatile;

- they may receive no interest;
- payment of principal or interest may occur at a different time or in a different currency than expected;
- they may lose all or a substantial portion of their principal;
- a Relevant Factor may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices;
- if a Relevant Factor is applied to Notes in conjunction with a multiplier greater than one or contains some other leverage factor, the effect of changes in the Relevant Factor on principal or interest payable likely will be magnified; and
- the timing of changes in a Relevant Factor may affect the actual yield to investors, even if the average level is consistent with their expectations. In general, the earlier the change in the Relevant Factor, the greater the effect on yield

The historical experience of an index should not be viewed as an indication of the future performance of such index during the term of any Index Linked Notes. Accordingly, each potential investor should consult its own financial and legal advisers about the risk entailed by an investment in any Index Linked Notes and the suitability of such Notes in the light of its particular circumstances.

Partly-paid Notes are subject to additional risks.

The Issuer may issue Notes where the issue price is payable in more than one instalment. Failure to pay any subsequent instalment could result in an investor losing all of his investment.

Variable rate Notes with a multiplier or other leverage factor are subject to increased volatility.

Notes with variable interest rates can be volatile investments. If Notes are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features or other similar related features, their market values may be even more volatile than those for securities that do not include those features.

Inverse Floating Rate Notes are subject to increased volatility.

Inverse Floating Rate Notes have an interest rate equal to a fixed rate minus a rate based upon a reference rate such as LIBOR. The market values of those Notes typically are more volatile than market values of other conventional floating rate debt securities based on the same reference rate (and with otherwise comparable terms). Inverse Floating Rate Notes are more volatile because an increase in the reference rate not only decreases the interest rate of the Notes, but may also reflect an increase in prevailing interest rates, which further adversely affects the market value of these Notes.

Fixed/Floating Rate Notes are subject to additional risks.

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Issuer has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than the prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than the then prevailing rates on the Notes.

Notes issued at a substantial discount or premium are subject to increased volatility.

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Risks related to Notes generally

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

- understand thoroughly the terms of the Notes and be familiar with the behaviour of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes may be complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

The Notes are subject to modification by a majority of Noteholders without the consent of all Noteholders.

The Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests. These provisions permit defined majorities to bind all Noteholders (including Noteholders who did not attend or vote at the relevant meeting as well as Noteholders who did attend the relevant meeting, but voted in a manner contrary to the majority).

The Guarantor's waiver of immunity may not be effective under UAE law.

The Guarantor has waived its rights in relation to sovereign immunity; however, there can be no assurance as to whether such waivers of immunity from execution or attachment or other legal process by it under the Guarantee, the Agency Agreement and the Programme Agreement are valid and binding under the laws of the UAE and applicable in Abu Dhabi.

The EU Savings Directive may give rise to withholding in certain Notes.

Under EC Council Directive 2003/48/EC (the "**EU Savings Directive**") on the taxation of savings income, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entity established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories, including Switzerland, have adopted similar measures (a withholding system in the case of Switzerland).

On 15 September 2008, the European Commission issued a report to the Council of the European Union on the operation of the EU Savings Directive, which included the European Commission's advice on the need for changes to the EU Savings Directive. On 13 November 2008, the European Commission published a more detailed proposal for amendments to the EU Savings Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the EU Savings Directive, they may amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment, neither the Issuer, the Guarantor nor any Paying Agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. If a withholding tax is imposed on payment made by a Paying Agent, the Issuer or the Guarantor will be required to maintain a Paying Agent in a Member State that will not be obliged to withhold or deduct tax pursuant to the EU Savings Directive.

A change of law may adversely affect the Notes.

The conditions of the Notes are based on English law in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Base Prospectus.

Certain bearer notes, the denomination of which involves integral multiples, may be illiquid and difficult to trade.

If an issue of Bearer Notes is in denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts that are not integral multiples of such minimum Specified Denomination. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time may not receive a definitive Bearer Note in respect of such holding (should such Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to a Specified Denomination.

If definitive Bearer Notes are issued, holders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

Investors in the Notes must rely on DTC, Euroclear and Clearstream, Luxembourg procedures.

Notes issued under the Programme will be represented on issue by one or more Global Notes or Global Note Certificates that may be deposited with a common depositary for Euroclear and Clearstream, Luxembourg or may be deposited with a nominee for DTC (each as defined under "**Form of the Notes**"). Except in the circumstances described in each Global Note or Global Note Certificate, investors will not be entitled to receive Notes in definitive form. Each of DTC, Euroclear and Clearstream, Luxembourg and their respective direct and indirect participants will maintain records of the beneficial interests in each Global Note or Global Note Certificate held through it. While the Notes are represented by a Global Note or Global Note Certificate, investors will be able to trade their beneficial interests only through the relevant clearing systems and their respective participants and the Issuer will discharge its payment obligations under the Notes by making payments through the relevant clearing systems. A holder of a beneficial interest in a Global Note or Global Note Certificate must rely on the procedures of the relevant clearing system and its participants in relation to payments under the Notes. The Issuer shall have no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in any Global Note or Global Note Certificate.

Holders of beneficial interests in a Global Note or Global Note Certificate will not have a direct right to vote in respect of the Notes so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Legal investment consideration may restrict certain investments.

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) Notes constitute legal investments for it; (ii) Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to any purchase or pledge of any Notes by the investor. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules and regulations.

Each Issuer may, without the consent of the Holders, issue additional Notes. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, may be treated as a separate series for U.S. federal income tax purposes.

Each Issuer may, without the consent of the holders of the Notes of the relevant Series, issue additional Tranches of Notes which may be consolidated and form a single Series with one or more Tranches previously issued. Notwithstanding the foregoing, such additional Tranches may be treated as a separate series for U.S. Federal income tax purposes. In such a case, the Notes of any such additional Tranche may be considered to have been issued with "original issue discount" for U.S. Federal income tax purposes and this may reduce the market value of the Notes of such Tranche to certain classes of investor.

A secondary market may not develop for any Notes.

The Notes may have no established trading market when issued. A market may not develop for such Notes and, if a market does develop, such market may not be liquid. The liquidity of any market for the Notes will depend on a number of factors, including, but not limited to:

- the method of calculating the principal and interest in respect of the Notes;
- the time remaining to the maturity of the Notes;
- the outstanding amount of the Notes;
- the redemption features of the Notes; and
- the level, direction and volatility of market interest rates generally.

As a result, investors may not be able to sell their Notes easily or at prices that will provide a yield comparable to similar investments that have a developed secondary market. Such risks are heightened for any Notes that: (i) are especially sensitive to interest rate risks, currency risk or other market risks; (ii) have been designed for specific investment objectives or strategies; or (iii) have been structured to meet the investment requirements of certain limited categories of investors, as such types of Notes generally would have a more limited secondary market and increased price volatility than conventional debt securities. The relative illiquidity of Notes may have a severely adverse effect on such Notes' market value.

Notes may be subject to exchange rate risks and exchange controls.

Neither ADCB Finance Cayman nor ADCB has any control over factors that generally affect exchange rate risks, such as economic, financial and political events and the supply and demand for applicable currencies. In recent years, exchange rates between certain currencies have been volatile and such exchange rate volatility with a variety of currencies may continue in the future.

ADCB Finance Cayman or ADCB, as the case may be, will pay principal and any interest due on any Notes in the Specified Currency. If an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency, it may therefore bear certain exchange rate risks. These include: (i) the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency); and (ii) the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls which could adversely affect an applicable exchange rate. Any appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (i) the Investor's Currency-equivalent yield on the Notes; (ii) the Investor's Currency-equivalent value of the principal payable on the Notes; and (iii) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate as well as the availability of a specified foreign currency at the time of any payment of principal or interest on a Note. As a result, investors may receive less interest or principal than expected, or no interest or principal. Even if there are no actual exchange controls, it is possible that the Specified Currency for any particular Note would not be available at such Note's maturity.

Credit ratings may not reflect all risks.

As at the date of this Base Prospectus, ADCB's credit rating is A1 with a "negative outlook" by Moody's Investors Service ("**Moody's**") and A– with "stable outlook" by Standard & Poor's, Inc. ("**Standard & Poor's**"). One or more independent credit rating agencies may also assign credit ratings to ADCB or any Notes. Any ratings of either ADCB or the Notes may not reflect the potential impact of all risks related to structure, market, additional factors discussed above, and other factors that may affect the value of any Notes. There is no assurance that the ratings will remain in effect for any given period of time or that the ratings will not be lowered or withdrawn entirely if circumstances in the future so warrant.

Nevertheless, real or anticipated changes in ADCB's credit ratings or the ratings of the Notes generally will affect the market value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by its assigning rating agency at any time.

DESCRIPTION OF THE PROGRAMME

This description must be read as an introduction to this Base Prospectus. Any decision to invest in any Notes should be based on a consideration of this Base Prospectus as a whole, including the documents incorporated by reference, by any investor. This description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the applicable Final Terms.

Words and expressions defined in "*Form of the Notes*" and "*Terms and Conditions of the Notes*" shall have the same meanings in this description.

Issuers:	ADCB Finance (Cayman) Limited Abu Dhabi Commercial Bank P.J.S.C.
Guarantor in respect of Notes issued by ADCB Finance (Cayman) Limited:	Abu Dhabi Commercial Bank P.J.S.C.
Abu Dhabi Commercial Bank P.J.S.C.:	**ADCB is a public joint stock company incorporated in the Emirate of Abu Dhabi, UAE.** Since its incorporation in July 1985, the Government has always held through the Abu Dhabi Investment Council a controlling interest of at least 64.8 per cent. of the share capital in ADCB. ADCB has a network of 48 branches in the United Arab Emirates and 2 branches in India and had 2,447 employees as at 30 June 2010. ADCB's total assets as at 30 June 2010 were approximately AED 166.6 billion and its net loss for the six months ended on that date was AED 305.9 million. ADCB is listed on the Abu Dhabi Securities Exchange and had a market capitalisation of approximately AED 9,353 million as at 30 June 2010.
Description:	Global Medium Term Note Programme.
Arranger:	HSBC Bank plc.
Dealers:	Abu Dhabi Commercial Bank P.J.S.C. BNP Paribas Citigroup Global Markets Limited Commerzbank Aktiengeseellschaft Daiwa Capital Markets Europe Limited Deutsche Bank AG, London Branch HSBC Bank plc J.P. Morgan Securities Ltd. Merrill Lynch International Standard Chartered Bank The Issuers may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme.

Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time (see "*Subscription and Sale and Transfer and Selling Restrictions*") including the following restrictions applicable at the date of this Base Prospectus. **Notes having a maturity of less than one year** Notes having a maturity of less than one year will, if the proceeds of the issue are accepted in the United Kingdom, constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the Financial Services and Markets Act 2000 unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent (see "*Subscription and Sale and Transfer and Selling Restrictions*").
Issuing and Principal Paying Agent:	HSBC Bank plc.
Programme Size:	Up to U.S.$7,500,000,000 (or its equivalent in other currencies calculated as described in the Programme Agreement) outstanding at any time. ADCB may increase the amount of the Programme in accordance with the terms of the Programme Agreement.
Distribution:	Notes may be distributed by way of private or public placement and in each case on a syndicated or non syndicated basis.
Currencies:	Subject to any applicable legal or regulatory restrictions, any currency agreed between the relevant Obligors and the relevant Dealer.
Redenomination:	The applicable Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 5.
Maturities:	The Notes will have such maturities as may be agreed between the relevant Obligors and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Obligors or the relevant Specified Currency.
Issue Price:	Notes may be issued on a fully-paid or a partly-paid basis and at an issue price which is at par or at a discount to, or premium over, par.
Form of Notes:	The Notes will be issued in bearer or registered form as described in "*Form of the Notes*". Registered Notes will not be exchangeable for Bearer Notes and vice versa.
Fixed Rate Notes:	Fixed interest will be payable on such date or dates as may be agreed between the relevant Obligors and the relevant Dealer and on redemption and will be calculated on the basis of such Day Count Fraction as may be agreed between the relevant Obligors and the relevant Dealer.

Floating Rate Notes:	Floating Rate Notes will bear interest at a rate determined: (a) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions (as published by the International Swaps and Derivatives Association, Inc., and as amended and updated as at the Issue Date of the first Tranche of the Notes of the relevant Series); or (b) on the basis of a reference rate appearing on the agreed screen page of a commercial quotation service; or (c) on such other basis as may be agreed between the relevant Obligors and the relevant Dealer. The margin (if any) relating to such floating rate will be agreed between the relevant Obligors and the relevant Dealer for each Series of Floating Rate Notes.
Index Linked Notes:	Payments of principal in respect of Index Linked Redemption Notes or of interest in respect of Index Linked Interest Notes will be calculated by reference to such index and/or formula or to changes in the prices of securities or commodities or to such other factors as the relevant Obligors and the relevant Dealer may agree.
Other provisions in relation to Floating Rate Notes and Index Linked Interest Notes:	Floating Rate Notes and Index Linked Interest Notes may also have a maximum interest rate, a minimum interest rate or both. Interest on Floating Rate Notes and Index Linked Interest Notes in respect of each Interest Period, as agreed prior to issue by relevant Obligors and the relevant Dealer, will be payable on such Interest Payment Dates, and will be calculated on the basis of such Day Count Fraction, as may be agreed between the relevant Obligors and the relevant Dealer.
Dual Currency Notes:	Payments (whether in respect of principal or interest and whether at maturity or otherwise) in respect of Dual Currency Notes will be made in such currencies, and based on such rates of exchange, as the relevant Obligors and the relevant Dealer may agree.
Interest Period and Interest Rates:	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. All such information will be set out in the applicable Final Terms.
Zero Coupon Notes:	Zero Coupon Notes will be offered and sold at a discount to their nominal amount and will not bear interest.
Redemption:	The applicable Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than in specified instalments, if applicable, or for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the relevant Issuer and/or the Noteholders upon giving notice to the Noteholders or the relevant Issuer, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the relevant Obligors and the relevant Dealer.

The applicable Final Terms may provide that Notes may be redeemable in two or more instalments of such amounts and on such dates as are indicated in the applicable Final Terms.

Notes having a maturity of less than one year are subject to restrictions on their denomination and distribution, see "*Certain Restrictions*" above.

Denomination of Notes: The Notes will be issued in such denominations as may be agreed between the relevant Obligors and the relevant Dealer save that the minimum denomination of each Note will be such amount as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the relevant Specified Currency, see "*Certain Restrictions*" above, and save that the minimum denomination of each Note admitted to trading on a regulated market within the European Economic Area or offered to the public in a Member State of the European Economic Area in circumstances which would otherwise require the publication of a prospectus under the Prospectus Directive will be €100,000 (or, if the Notes are denominated in a currency other than euro, the equivalent amount in such currency).

The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.$100,000 (or the approximate equivalent thereof in any other currency).

Taxation: All payments in respect of the Notes and under the Guarantee will be made without deduction for or on account of withholding taxes imposed by any Relevant Tax Jurisdiction as provided in Condition 9. In the event that any such deduction is made, the relevant Obligors will, save in certain limited circumstances provided in Condition 9, be required to pay additional amounts to cover the amounts so deducted.

Negative Pledge: The terms of the Senior Notes will contain a negative pledge provision as further described in Condition 4.

Cross Default: The terms of the Senior Notes will contain a cross default provision as further described in Condition 11.

Status of the Senior Notes: The Senior Notes will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the relevant Issuer and will rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of that Issuer, from time to time outstanding.

Status of the Guarantee in respect of Senior Notes issued by ADCB Finance Cayman: The obligations of the Guarantor under the Guarantee in respect of Senior Notes issued by ADCB Finance Cayman will be direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and will rank *pari passu* and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor from time to time outstanding.

Status and Subordination of the Subordinated Notes: The Subordinated Notes are direct, conditional (as described in Condition 3.3) and unsecured obligations of the relevant Issuer. Payments in respect of the Subordinated Notes will be subordinated as described in Condition 3.3.

Status of the Guarantee in respect of Subordinated Notes issued by ADCB Finance Cayman:	The Guarantee in respect of the Subordinated Notes issued by ADCB Finance Cayman is a direct, conditional (as described in Condition 3.4) and unsecured obligation of the Guarantor. Payments in respect of the Guarantee in respect of the Subordinated Notes issued by ADCB Finance Cayman will be subordinated as described in Condition 3.4.
Rating:	The rating of certain Series of Notes to be issued under the Programme may be specified in the applicable Final Terms.
Approval, Listing and Admission to trading:	Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's regulated market. Notes may be listed or admitted to trading, as the case may be, on other or further stock exchanges or markets agreed between the relevant Obligors and the relevant Dealer in relation to the Series. Notes which are neither listed nor admitted to trading on any market may also be issued. The applicable Final Terms will state whether or not the relevant Notes are to be listed and/or admitted to trading and, if so, on which stock exchanges and/or markets.
Clearing Systems:	Euroclear and/or Clearstream, Luxembourg and/or DTC or, in relation to any Tranche of Notes, any other clearing system.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the European Economic Area (including the United Kingdom), the Cayman Islands, Japan, the United Arab Emirates, the Kingdom of Saudi Arabia and the Kingdom of Bahrain and such other restrictions as may be required in connection with the offering and sale of a particular Tranche of Notes (see "*Subscription and Sale and Transfer and Selling Restrictions*").
United States Selling Restrictions:	Regulation S, Category 2. Rule 144A and TEFRA C/TEFRA D/TEFRA not applicable, as specified in the applicable Final Terms. ERISA restrictions.

DOCUMENT INCORPORATED BY REFERENCE

The following document which has previously been published and has been filed with the Financial Services Authority ("**FSA**") shall be incorporated in, and form part of, this Base Prospectus:

- the Terms and Conditions of the Notes contained in the Base Prospectus dated 17 June 2008 (the "**2008 Terms and Conditions**"), pages 37 to 67 (inclusive);

- the Terms and Conditions of the Notes contained in the Base Prospectus dated 7 July 2009 (the "**July 2009 Terms and Conditions**"), pages 44 to 79 (inclusive); and

- the Terms and Conditions of the Notes contained in the Base Prospectus dated 17 September 2009 (the "**September 2009 Terms and Conditions**"), pages 43 to 75 (inclusive),

in each case prepared by the Obligors in connection with the Programme.

Following the publication of this Base Prospectus a supplement may be prepared by the relevant Issuer and approved by the UK Listing Authority in accordance with Article 16 of the Prospectus Directive. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Base Prospectus or in a document which is incorporated by reference in this Base Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Base Prospectus.

Copies of the document incorporated by reference in this Base Prospectus can be obtained from the registered office of ADCB and from the specified office of the Paying Agent for the time being in London.

Save for the Rules referred to in Condition 18.2 of the 2008 Terms and Conditions and Condition 19.2 of the July 2009 Terms and Conditions and the September 2009 Terms and Conditions, any documents themselves incorporated by reference in the document incorporated by reference in this Base Prospectus shall not form part of this Base Prospectus.

If at any time either of the Issuers shall be required to prepare a supplement to the Base Prospectus pursuant to Section 87 of the Financial Services and Markets Act 2000 (the "**FSMA**"), or to give effect to the provisions of Article 16(1) of the Prospectus Directive, such Issuer will prepare and make available an appropriate amendment or supplement to this Base Prospectus or a further base prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Regulated Market of the London Stock Exchange, shall constitute a supplemental base prospectus as required by the FSA and Section 87 of the FSMA.

FORM OF THE NOTES

The Notes of each Series will be in either bearer form, with or without interest coupons attached, or registered form, without interest coupons attached. Bearer Notes will be issued outside the United States in reliance on Regulation S and Registered Notes will be issued both outside the United States in reliance on the exemption from registration provided by Regulation S and within the United States in reliance on Rule 144A or otherwise in private transactions that are exempt from the registration requirements of the Securities Act.

Bearer Notes

Each Tranche of Bearer Notes will be initially issued in the form of a temporary global note (a "**Temporary Bearer Global Note**") or, if so specified in the applicable Final Terms, a permanent global note (a "**Permanent Bearer Global Note**") which, in either case, will be delivered on or prior to the original issue date of the Tranche to a common depositary (the "**Common Depositary**") for Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"). Whilst any Bearer Note is represented by a Temporary Bearer Global Note, payments of principal, interest (if any) and any other amount payable in respect of the Notes due prior to the Exchange Date (as defined below) will be made against presentation of the Temporary Bearer Global Note only to the extent that certification (in a form to be provided) to the effect that the beneficial owners of interests in such Bearer Note are not U.S. persons or persons who have purchased for resale to any U.S. person, as required by U.S. Treasury regulations, has been received by Euroclear and/or Clearstream, Luxembourg and Euroclear and/or Clearstream, Luxembourg, as applicable, has given a like certification (based on the certifications it has received) to the Principal Paying Agent.

On and after the date (the "**Exchange Date**") which is 40 days after a Temporary Bearer Global Note is issued, interests in such Temporary Bearer Global Note will be exchangeable (free of charge) upon a request as described therein either for (a) interests in a Permanent Bearer Global Note of the same Series or (b) for definitive Bearer Notes of the same Series with, where applicable, receipts, interest coupons and talons attached (as indicated in the applicable Final Terms and subject, in the case of definitive Bearer Notes, to such notice period as is specified in the applicable Final Terms), in each case against certification of beneficial ownership as described above unless such certification has already been given **provided that** purchasers in the United States and certain U.S. persons will not be able to receive definitive Bearer Notes. The holder of a Temporary Bearer Global Note will not be entitled to collect any payment of interest, principal or other amount due on or after the Exchange Date unless, upon due certification, exchange of the Temporary Bearer Global Note for an interest in a Permanent Bearer Global Note or for definitive Bearer Notes is improperly withheld or refused.

Payments of principal, interest (if any) or any other amounts on a Permanent Bearer Global Note will be made through Euroclear and/or Clearstream, Luxembourg against presentation or surrender (as the case may be) of the Permanent Bearer Global Note without any requirement for certification.

The applicable Final Terms will specify that a Permanent Bearer Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Bearer Notes with, where applicable, receipts, interest coupons and talons attached upon either (a) not less than 60 days' written notice from Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) to the Principal Paying Agent as described therein or (b) only upon the occurrence of an Exchange Event. For these purposes, "**Exchange Event**" means that (i) an Event of Default (as defined in Condition 11) has occurred and is continuing or (ii) the relevant Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and no successor clearing system is available. The relevant Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Permanent Bearer Global Note) may give notice to the Principal Paying Agent requesting exchange. Any such exchange shall occur not later than 45 days after the date of receipt of the first relevant notice by the Principal Paying Agent.

The following legend will appear on all Bearer Notes which have an original maturity of more than 1 year and on all receipts and interest coupons relating to such Notes:

”ANY UNITED STATES PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE INTERNAL REVENUE CODE.”

The sections referred to provide that United States holders, with certain exceptions, will not be entitled to deduct any loss on Bearer Notes, receipts or interest coupons and will not be entitled to capital gains treatment of any gain on any sale, disposition, redemption or payment of principal in respect of such Notes, receipts or interest coupons.

Notes which are represented by a Bearer Global Note will only be transferable in accordance with the rules and procedures for the time being of Euroclear or Clearstream, Luxembourg, as the case may be.

Registered Notes

The Registered Notes of each Tranche offered and sold in reliance on Regulation S, which will be sold to non-U.S. persons outside the United States, will initially be represented by a global note in registered form (a “**Regulation S Global Note**”). Prior to expiry of the distribution compliance period (as defined in Regulation S) applicable to each Tranche of Notes, beneficial interests in a Regulation S Global Note may not be offered or sold to, or for the account or benefit of, a U.S. person save as otherwise provided in Condition 2 and may not be held otherwise than through Euroclear or Clearstream, Luxembourg and such Regulation S Global Note will bear a legend regarding such restrictions on transfer.

The Registered Notes of each Tranche may only be offered and sold in the United States or to U.S. persons in private transactions to persons who are QIBs. The Registered Notes of each Tranche sold to QIBs will be represented by a global note in registered form (a “**Rule 144A Global Note**” and, together with a Regulation S Global Note, the “**Registered Global Notes**”).

Registered Global Notes will either (i) be deposited with a custodian for, and registered in the name of a nominee of, the Depository Trust Company (“**DTC**”) or (ii) be deposited with a common depositary for, and registered in the name of a common nominee of, Euroclear and Clearstream, Luxembourg, as specified in the applicable Final Terms. Persons holding beneficial interests in Registered Global Notes will be entitled or required, as the case may be, under the circumstances described below, to receive physical delivery of definitive Notes in fully registered form.

Payments of principal, interest and any other amount in respect of the Registered Global Notes will, in the absence of provision to the contrary, be made to the person shown on the Register (as defined in Condition 7.4) as the registered holder of the Registered Global Notes. None of the Obligors, any Paying Agent or the Registrar will have any responsibility or liability for any aspect of the records relating to or payments or deliveries made on account of beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Payments of principal, interest or any other amount in respect of the Registered Notes in definitive form will, in the absence of provision to the contrary, be made to the persons shown on the Register on the relevant Record Date (as defined in Condition 7.4) immediately preceding the due date for payment in the manner provided in that Condition.

Interests in a Registered Global Note will be exchangeable (free of charge), in whole but not in part, for definitive Registered Notes without receipts, interest coupons or talons attached only upon the 29 occurrence of an Exchange Event. For these purposes, “**Exchange Event**” means that (i) an Event of Default has occurred and is continuing, (ii) in the case of Notes registered in the name of a nominee for DTC, either DTC has notified the Issuer that it is unwilling or unable to continue to act as depository for the Notes and no alternative clearing system is available or DTC has ceased to constitute a clearing agency registered under the Exchange Act or (iii) in the case of Notes registered in the name of a nominee for a common depositary for Euroclear and Clearstream, Luxembourg, the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system is available. The Issuer will promptly give notice to Noteholders in accordance with Condition 15 if an Exchange Event occurs. In the event of the occurrence of an Exchange Event, DTC, Euroclear and/or Clearstream, Luxembourg (acting on the instructions of any holder of an interest in such Registered Global Note) may give notice to the Registrar requesting exchange. Any such exchange shall occur not later than 10 days after the date of receipt of the first relevant notice by the Registrar.

Transfer of Interests

Interests in a Registered Global Note may, subject to compliance with all applicable restrictions, be transferred to a person who wishes to hold such interest in another Registered Global Note. No beneficial owner of an interest in a Registered Global Note will be able to transfer such interest, except in accordance with the applicable procedures of DTC, Euroclear and Clearstream, Luxembourg, in each case to the extent applicable. **Registered Notes are also subject to the restrictions on transfer set forth therein and will bear a legend regarding such restrictions, see "*Subscription and Sale and Transfer and Selling Restrictions*".**

General

Pursuant to the Agency Agreement (as defined under "*Terms and Conditions of the Notes*"), the Principal Paying Agent shall arrange that, where a further Tranche of Notes is issued which is intended to form a single Series with an existing Tranche of Notes, the Notes of such further Tranche shall be assigned a common code and ISIN and, where applicable, a CUSIP and CINS number which are different from the common code, ISIN, CUSIP and CINS assigned to Notes of any other Tranche of the same Series until at least the expiry of the distribution compliance period (as defined in Regulation S) applicable to the Notes of such Tranche.

Any reference herein to Euroclear and/or Clearstream, Luxembourg and/or DTC shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

A Note may be accelerated by the holder thereof in certain circumstances described in Condition 10. In such circumstances, where any Note is still represented by a Global Note and the Global Note(or any part thereof) has become due and repayable in accordance with the Terms and Conditions of such Notes and payment in full of the amount due has not been made in accordance with the provisions of the Global Note then the Global Note will become void at 8.00 p.m. (London time) on such day. At the same time, holders of interests in such Global Note credited to their accounts with Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, will become entitled to proceed directly against the relevant Issuer on the basis of statements of account provided by Euroclear, Clearstream, Luxembourg and DTC on and subject to the terms of an amended and restated deed of covenant (a "**Deed of Covenant**") dated 21 October 2010 and made by each Issuer. In addition, holders of interests in such Global Note credited to their accounts with DTC may require DTC to deliver definitive Notes in registered form in exchange for their interest in such Global Note in accordance with DTC's standard operating procedures.

APPLICABLE FINAL TERMS

Set out below is the form of Final Terms which will be completed for each Tranche of Notes issued under the Programme.

[Date]

[ADCB FINANCE (CAYMAN) LIMITED][ABU DHABI COMMERCIAL BANK P.J.S.C.]

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
[unconditionally and irrevocably guaranteed by
ABU DHABI COMMERCIAL BANK P.J.S.C.]
under the U.S.$7,500,000,000
Global Medium Term Note Programme

PART A – CONTRACTUAL TERMS

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Base Prospectus dated 21 October 2010 [and the supplemental Prospectus dated [●]] which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive (Directive 2003/71/EC]) (the "**Prospectus Directive**"). This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive and must be read in conjunction with the Base Prospectus. Full information on the Issuer[, the Guarantor] and the offer of the Notes is only available on the basis of the combination of these Final Terms and the Base Prospectus [as so supplemented]. The Base Prospectus [and the supplemental Prospectus] [is] [are] available for viewing during normal business hours at Abu Dhabi Commercial Bank P.J.S.C., ADCB Tower, Head Office, Al Salam Street, P.O. Box 939, Abu Dhabi, United Arab Emirates and copies may be obtained from Abu Dhabi Commercial Bank P.J.S.C., ADCB Tower, Head Office, Al Salam Street, P.O. Box 939, Abu Dhabi, United Arab Emirates.

The following alternative language applies if the first tranche of an issue which is being increased was issued under a Prospectus with an earlier date.

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") contained in the Agency Agreement dated [*original date*] and set forth in the Base Prospectus dated [*original date*] [and the supplemental Prospectus dated [●]] and incorporated by reference into the Prospectus dated [*current date*] and which are attached hereto. This document constitutes the Final Terms of the Notes described herein for the purposes of Article 5.4 of the Prospectus Directive (Directive 2003/71/EC) (the "**Prospectus Directive**") and must be read in conjunction with the Base Prospectus dated [*current date*] [and the supplemental Prospectus dated [●]], which [together] constitute[s] a base prospectus for the purposes of the Prospectus Directive. The Base Prospectuses [and the supplemental Prospectus] are available for viewing during normal business hours at Abu Dhabi Commercial Bank P.J.S.C., ADCB Tower, Head Office, Al Salam Street, P.O. Box 939, Abu Dhabi, United Arab Emirates and copies may be obtained from Abu Dhabi Commercial Bank P.J.S.C., ADCB Tower, Head Office, Al Salam Street, P.O. Box 939, Abu Dhabi, United Arab Emirates.]

[Include whichever of the following apply or specify as "Not Applicable" (N/A). Note that the numbering should remain as set out below, even if "Not Applicable" is indicated for individual paragraphs or subparagraphs. Italics denote directions for completing the Final Terms.]

[When adding any other final terms or information consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the base prospectus under Article 16 of the Prospectus Directive.]

[If the Notes have a maturity of less than one year from the date of their issue, the minimum denomination must be £100,000 or its equivalent in any other currency.]

1.	(a)	Issuer:	[Abu Dhabi Commercial Bank P.J.S.C.] [ADCB Finance (Cayman) Limited]
	(b)	Guarantor:	[N/A][Abu Dhabi Commercial Bank P.J.S.C.]
2.	(a)	Series Number:	[●]
	(b)	Tranche Number:	[●] *If fungible with an existing Series, details of that Series, including the date on which the Notes become fungible)*
3.	Specified Currency or Currencies:		[●]
4.	Aggregate Nominal Amount of Notes admitted to trading:		
	(a)	Series:	[●]
	(b)	Tranche:	[●]
5.	Issue Price:		[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [*insert date*] (*if applicable*)]
6..	(a)	Specified Denominations: (in the case of Registered Notes this means the minimum integral amount in which transfers can be made)	[●] *(Note – where Bearer Notes with multiple denominations above €100,000 or equivalent are being used the following sample wording or an appropriate variation should be followed:* *"€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000. No Notes in definitive form will be issued with a denomination above €199,000.")* *(N.B. If an issue of Notes is (i) NOT admitted to trading on an European Economic Area exchange; and (ii) only offered in the European Economic Area in circumstances where a prospectus is not required to be published under the Prospectus Directive the €100,000 minimum denomination is not required.)*
	(b)	Calculation Amount (Applicable to Notes in definitive form)	[●] *(If only one Specified Denomination, insert the Specified Denomination. If more than one Specified Denomination, insert the highest common factor. Note: There must be a common factor in the case of two or more Specified Denominations.)*
7.	(a)	Issue Date:	[●]
	(b)	Interest Commencement Date:	[*Specify*/Issue Date/Not Applicable] *(N.B. An Interest Commencement Date will not be relevant for certain Notes, for example Zero Coupon Notes.)*

8.	Maturity Date:	[*Fixed rate – specify date/Floating rate* – Interest Payment Date falling in or nearest to [*specify month*]]
9.	Interest Basis:	[[●] per cent. Fixed Rate] [[LIBOR/EURIBOR] +/ – [●] per cent. Floating Rate] [Zero Coupon] [Index Linked Interest] [Dual Currency Interest] [*specify other*] (further particulars specified below)
10.	Redemption/Payment Basis:	[Redemption at par] [Index Linked Redemption] [Dual Currency Redemption] [Partly Paid] [Instalment] [*specify other*] *(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
11..	Change of Interest Basis or Redemption/Payment Basis:	[*Specify details of any provision for change of Notes into another Interest Basis or Redemption/Payment Basis*]
12.	Put/Call Options:	[Investor Put] [Issuer Call] [(further particulars specified below)]
13.	(a) Status of the Notes:	[Senior] [Subordinated]
	(b) Status of the Guarantee:	[Senior] [Subordinated]
	(c) [Date [Board] approval for issuance of Notes [and Guarantee] obtained:	[●] [and [●], respectively]] *(N.B. Only relevant where Board (or similar) authorisation is required for the particular tranche of Notes or related Guarantee)*
14.	Method of distribution:	[Syndicated/Non-syndicated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

15.	Fixed Rate Note Provisions	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a) Rate(s) of Interest:	[●] per cent. per annum [payable [annually/semi-annually/ quarterly/other (specify)] in arrear] *(If payable other than annually, consider amending Condition 6)*
	(b) Interest Payment Date(s):	[[●] in each year up to and including the Maturity Date]/ [*specify other*] *(N.B. This will need to be amended in the case of long or short coupons)*

	(c)	Fixed Coupon Amount(s): *(Applicable to Notes in definitive form.)*	[●] per Calculation Amount
	(d)	Broken Amount(s): *(Applicable to Notes in definitive form.)*	[●] per Calculation Amount, payable on the Interest Payment Date falling [in/on] [●]
	(e)	Day Count Fraction:	[30/360 or Actual/Actual (ICMA) or [specify other]]
	(f)	Determination Date(s):	[●] in each year *[Insert regular interest payment dates, ignoring issue date or maturity date in the case of a long or short first or last coupon* *N.B. This will need to be amended in the case of regular interest payment dates which are not of equal duration* *N.B. Only relevant where Day Count Fraction is Actual/Actual (ICMA)]*
	(g)	Other terms relating to the: method of calculating interest for Fixed Rate Notes	[None/*Give details*]
16.	Floating Rate Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Specified Period(s)/ Specified Interest Payment Dates:	[●]
	(b)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/ [*specify other*]]
	(c)	Additional Business Centre(s):	[●]
	(d)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination/*specify other*]
	(e)	Party responsible for calculating the Rate of Interest and Interest Amount (if not the Principal Paying Agent):	[●]
	(f)	Screen Rate Determination:	
		(i) Reference Rate:	[●] *(Either LIBOR, EURIBOR or other, although additional information is required if other – including fallback provisions in the Agency Agreement)*

	(ii)	Interest Determination Date(s):	[●] *(Second London business day prior to the start of each Interest Period if LIBOR (other than Sterling or euro LIBOR), first day of each Interest Period if Sterling LIBOR and the second day on which the TARGET2 System is open prior to the start of each Interest Period if EURIBOR or euro LIBOR)*
	(iii)	Relevant Screen Page:	[●] *(In the case of EURIBOR, if not Reuters EURIBOR01 ensure it is a page which shows a composite rate or amend the fallback provisions appropriately)*
(g)	ISDA Determination:		
	(i)	Floating Rate Option:	[●]
	(ii)	Designated Maturity:	[●]
	(iii)	Reset Date:	[●]
(h)	Margin(s):		[+/-][●] per cent. per annum
(i)	Minimum Rate of Interest:		[●] per cent. per annum
(j)	Maximum Rate of Interest:		[●] per cent. per annum
(k)	Day Count Fraction:		[[Actual/Actual (ISDA)] [Actual/Actual] Actual/365 (Fixed) Actual/365 (Sterling) Actual/360 [30/360] [360/360] [Bond Basis] [30E/360] [Eurobond Basis] 30E/360 (ISDA) Other] *(See Condition 6 for alternatives)*
(l)	Fallback provisions, rounding provisions and any other terms relating to the method of calculating interest on Floating Rate Notes, if different from those set out in the Conditions:		[●]

17.	Zero Coupon Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
	(a)	Accrual Yield:	[●] per cent. per annum
	(b)	Reference Price:	[●]
	(c)	Any other formula/basis of determining amount payable:	[●]
	(d)	Day Count Fraction in relation to Early Redemption Amounts and late payment:	[Conditions 8.5(c) and 8.10 apply/specify other] *(Consider applicable day count fraction if not U.S. dollar denominated)*

18.	Index Linked Interest Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)* *(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
	(a)	Index/Formula:	[*give or annex details including exercise/reference price*]
	(b)	Calculation Agent:	[*give name (and, if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, address)*]
	(c)	Party responsible for calculating the Rate of Interest (if not the Calculation Agent) and Interest Amount (if not the Principal Paying Agent):	[●]
	(d)	Provisions for determining Coupon where calculation by reference to Index and/or Formula is impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
	(e)	Specified Period(s)/ Specified Interest Payment Dates:	[●]
	(f)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/ Preceding Business Day Convention/*specify other*]
	(g)	Additional Business Centre(s):	[●]
	(h)	Minimum Rate of Interest:	[●] per cent. per annum
	(i)	Maximum Rate of Interest:	[●] per cent. per annum
	(j)	Day Count Fraction:	[●]
19.	Dual Currency Interest Note Provisions		[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)* *(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
	(a)	Rate of Exchange/method of calculating Rate of Exchange:	[*give or annex details*]

(b)	Party, if any, responsible for calculating the interest due (if not the Principal Paying Agent):	[●]
(c)	Provisions applicable where calculation by reference to Rate of Exchange impossible or impracticable:	[*need to include a description of market disruption or settlement disruption events and adjustment provisions*]
(d)	Person at whose option Specified Currency(ies) is/are payable:	[●]

PROVISIONS RELATING TO REDEMPTION

20.	Issuer Call:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
(a)	Optional Redemption Date(s):	[●]
(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[●] per Calculation Amount/*specify other*/see Appendix]
(c)	If redeemable in part:	
(i)	Minimum Redemption Amount:	[●]
(ii)	Maximum Redemption Amount:	[●]
(d)	Notice period (if other than as set out in the Conditions):	[●] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent)*
21.	Investor Put:	[Applicable/Not Applicable] *(If not applicable, delete the remaining subparagraphs of this paragraph)*
(a)	Optional Redemption Date(s):	[●]
(b)	Optional Redemption Amount and method, if any, of calculation of such amount(s):	[[●] per Calculation Amount/*specify other*/see Appendix]

(c)	Notice period (if other than as set out in the Conditions):	[●] *(N.B. If setting notice periods which are different to those provided in the Conditions, the Issuer is advised to consider the practicalities of distribution of information through intermediaries, for example, clearing systems and custodians, as well as any other notice requirements which may apply, for example, as between the Issuer and the Principal Paying Agent)*
22.	Final Redemption Amount:	[[●] per Calculation Amount/*specify other*/see Appendix] *(N.B. If the Final Redemption Amount is other than 100 per cent. of the nominal value the Notes will be derivative securities for the purposes of the Prospectus Directive and the requirements of Annex XII to the Prospectus Directive Regulation will apply.)*
23.	Early Redemption Amount payable on redemption for taxation reasons or on event of default and/or the method of calculating the same (if required or if different from that set out in Condition 8.5):	[[●] per Calculation Amount/*specify other*/see Appendix]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

24.	Form of Notes:	[Bearer Notes: [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]] [Temporary Global Note exchangeable for definitive Notes on and after the Exchange Date] [Permanent Global Note exchangeable for definitive Notes [on 60 days' notice given at any time/only upon an Exchange Event]] *(Ensure that this is consistent with the wording in the "Form of the Notes" section in the Base Prospectus and the Notes themselves. N.B. The exchange upon notice/at any time options should not be expressed to be applicable if the Specified Denomination of the Notes in paragraph 6 includes language substantially to the following effect: "€100,000 and integral multiples of €1,000 in excess thereof up to and including €199,000." Furthermore, such Specified Denomination construction is not permitted in relation to any issue of Notes which is to be represented on issue by a Temporary Global Note exchangeable for definitive Notes.)]* [Registered Notes: [Regulations S Global Note registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]] [Rule 144A Global Note registered in the name of a nominee for [DTC/a common depositary for Euroclear and Clearstream, Luxembourg]]

		(Note – minimum purchase amount for Notes sold pursuant to Rule 144A is U.S.$100,000)
25.	Additional Financial Centre(s) or other special provisions relating to Payment Days:	[Not Applicable/*give details*] *(Note that this item relates to the place of payment and not Interest Period end dates to which items 16(c) and 18(f) relate)*
26.	Talons for future Coupons or Receipts to be attached to definitive Notes (and dates on which such Talons mature):	[Yes/No. If yes, *give details*]
27.	Details relating to Partly Paid Notes: amount of each payment comprising the Issue Price and date on which each payment is to be made and consequences of failure to pay, including any right of the Issuer to forfeit the Notes and interest due on late payment:	[Not Applicable/*give details*. *N.B. a new form of Temporary Global Note and/or Permanent Global Note may be required for Partly Paid issues]*
28.	Details relating to Instalment Notes:	
	(a) Instalment Amount(s):	[Not Applicable/*give details*]
	(b) Instalment Date(s):	[Not Applicable/*give details*]
29.	Redenomination applicable:	Redenomination [not] applicable *(If Redenomination is applicable, specify the applicable Day Count Fraction and any provisions necessary to deal with floating rate interest calculation (including alternative reference rates))*
30.	Other final terms:	[Not Applicable/*give details*] *(When adding any other final terms consideration should be given as to whether such terms or information constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)*

DISTRIBUTION

31.	(a) If syndicated, names of Managers:	[Not Applicable/*give names*] *(If the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, include names of entities agreeing to underwrite the issue on a firm commitment basis and names of the entities agreeing to place the issue without a firm commitment or on a "best efforts" basis if such entities are not the same as the Managers.)*
	(b) Date of Subscription Agreement:	[●] *(The above is only relevant if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.)*
	(c) Stabilising Manager (if any):	[Not Applicable/*give name*]

32.	If non-syndicated, name of relevant Dealer:	[Not Applicable/*give names*]
33.	U.S. Selling Restrictions:	[Reg. S Category 2; [Rule 144A;] TEFRA D/TEFRA C/ TEFRA not applicable]
34.	Additional selling restrictions:	[Not Applicable/*give details*]
35.	Additional U.S. Federal tax disclosure:	[Not Applicable/*give details*]
36.	Alternative ERISA considerations:	[Not Applicable/*give details*]
37.	Kingdom of Saudi Arabia Selling Restrictions:	[Not Applicable/Article 9 (paragraph a, No.2)/Article 9 (paragraph a, No.3)]

PURPOSE OF FINAL TERMS

These Final Terms comprise the final terms required for issue [and admission to trading on [*specify relevant regulated market (for example the London Stock Exchange's regulated market) and, if relevant listing on an official list (for example, the Official List of the UK Listing Authority)*]] of the Notes described herein pursuant to the U.S.$7,500,000,000 Global Medium Term Note Programme of Abu Dhabi Commercial Bank P.J.S.C. and ADCB Finance (Cayman) Limited.

RESPONSIBILITY

The Issuer [and the Guarantor] accept[s] responsibility for the information contained in these Final Terms. [[*Relevant third party information, for example in compliance with Annex XII to the Prospectus Directive Regulation in relation to an index or its components] has been extracted from [specify source]*. The Issuer [and the Guarantor] confirm[s] that such information has been accurately reproduced and that, so far as they are aware and are able to ascertain from information published by [specify source], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By:..	By: ....
Duly authorised	*Duly authorised*

[Signed on behalf of the Guarantor:

By:..	By: ....
Duly authorised	*Duly authorised]*

PART B – OTHER INFORMATION

1. **LISTING**

(i) Listing and Admission to trading	[Application [has been/is expected to be] made by the Issuer (or on its behalf) for the Notes to be admitted to trading on [*specify relevant regulated market (for example the London Stock Exchange's regulated market) and, if relevant, listing on an official list (for example, the Official List of the UK Listing Authority)*] with effect from [●].] [Not Applicable.]
(ii) Estimate of total expenses related to admission to trading:	[●]

2. **RATINGS**

Ratings: The Notes to be issued have been rated:

[S & P: [●]]
[Moody's: [●]]
[[Other]: [●]]
(*The above disclosure should reflect the rating allocated to Notes of the type being issued under the Programme generally or, where the issue has been specifically rated, that rating.*)

3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE**

[Save for any fees payable to the [Managers/Dealers], so far as the Issuer is aware, no person involved in the issue of the Notes has an interest material to the offer. – *Amend as appropriate if there are other interests*]

[(*When adding any other description, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*)]

4. **REASONS FOR THE OFFER, ESTIMATED NET PROCEEDS AND TOTAL EXPENSES**

(i) Reasons for the Offer:	[●]
(ii) Estimated net proceeds:	[●]
(iii) Estimated total expenses:	[●]
	(N.B.: Delete this paragraph 4 unless the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies, in which case (i) above is required where the reasons for the offer are different from making profit and/or hedging certain risks and, where such reasons are inserted in (i), disclosure of net proceeds and total expenses at (ii) and (iii) above are also required.)]

5. **YIELD** (*Fixed Rate Notes only*)

Indication of yield: [●]
The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.

6. **PERFORMANCE OF INDEX/FORMULA/OTHER VARIABLE AND OTHER INFORMATION CONCERNING THE UNDERLYING** (*Index Linked Notes only*)

[*Need to include details of where past and future performance and volatility of the index/formula can be obtained.*]

[*Where the underlying is an index need to include the name of the index and a description if composed by the Issuer and if the index is not composed by the Issuer need to include details of where the information about the index can be obtained.*]

[*Include other information concerning the underlying required by paragraph 4.2 of Annex XII of the Prospectus Directive Regulation.*]

[(*When completing the above paragraphs, consideration should be given as to whether such matters described constitute "significant new factors" and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.*)]

The Issuer [intends to provide post-issuance information [*specify what information will be reported and where it can be obtained*]] [does not intend to provide post-issuance information].

(*N.B. This paragraph 6 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.*)

7. **PERFORMANCE OF RATE[S] OF EXCHANGE** (*Dual Currency Notes only*)

[*Need to include details of where past and future performance and volatility of the relevant rates can be obtained.*]

[(*When completing this paragraph, consideration should be given as to whether such matters described constitute "significant new factors"* and consequently trigger the need for a supplement to the Base Prospectus under Article 16 of the Prospectus Directive.)]

(*N.B. This paragraph 7 only applies if the Notes are derivative securities to which Annex XII of the Prospectus Directive Regulation applies.*)

8. **OPERATIONAL INFORMATION**

(i)	ISIN Code:	[●]
(ii)	Common Code:	[●]
(iii)	CUSIP:	[●]
(iv)	CINS:	[●]
(v)	Any clearing system(s) other than DTC, Euroclear Bank S.A./N.V. and Clearstream Banking, société anonyme and the relevant identification number(s):	[Not Applicable/*give name(s) and number(s)*]
(vi)	Delivery:	Delivery [against/free of] payment
(vii)	Names and addresses of additional Paying Agent(s) (if any):	[●]

TERMS AND CONDITIONS OF THE NOTES

The following are the Terms and Conditions of the Notes which (save for the text in italics) will be incorporated by reference into each Global Note (as defined below) and each definitive Note, in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Issuer and, if the Issuer is ADCB Finance (Cayman) Limited, the Guarantor and the relevant Dealer at the time of issue but, if not so permitted and agreed, such definitive Note will have endorsed thereon or attached thereto such Terms and Conditions. The applicable Final Terms in relation to any Tranche of Notes may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Notes. The applicable Final Terms (or the relevant provisions thereof) will be endorsed upon, or attached to, each Global Note and definitive Note. Reference should be made to "Form of the Notes" for a description of the content of Final Terms which will specify which of such terms are to apply in relation to the relevant Notes.

This Note is one of a Series (as defined below) of Notes issued by the Issuer named in the applicable Final Terms (the "**Issuer**") pursuant to the Agency Agreement (as defined below).

References herein to the "**Notes**" shall be references to the Notes of this Series and shall mean:

(a) in relation to any Notes represented by a global Note (a "**Global Note**"), units of each Specified Denomination in the Specified Currency;

(b) any Global Note;

(c) any definitive Notes in bearer form ("**Bearer Notes**") issued in exchange for a Global Note in bearer form; and

(d) any definitive Notes in registered form ("**Registered Notes**") issued in exchange for a Global Note in registered form.

The Notes, the Receipts (as defined below) and the Coupons (as defined below) have the benefit of an Amended and Restated Agency Agreement (such Agency Agreement as amended and/or supplemented and/or restated from time to time, the "**Agency Agreement**") dated 21 October 2010 and made between ADCB Finance (Cayman) Limited as an issuer, Abu Dhabi Commercial Bank P.J.S.C. as an issuer and as guarantor (in its capacity as guarantor, the "**Guarantor**"), HSBC Bank plc as issuing and principal paying agent and agent bank (the "**Principal Paying Agent**", which expression shall include any successor principal paying agent) and the other paying agents named therein (together with the Principal Paying Agent, the "**Paying Agents**", which expression shall include any additional or successor paying agents), as a transfer agent and the other transfer agents named therein (together with the Registrar, the "**Transfer Agents**", which expression shall include any additional or successor transfer agents) and as exchange agent (the "**Exchange Agent**", which expression shall include any successor exchange agent), HSBC Bank USA National Association as registrar (the "**Registrar**", which expression shall include any successor registrar).

Interest bearing definitive Bearer Notes have interest coupons ("**Coupons**") and, if indicated in the applicable Final Terms, talons for further Coupons ("**Talons**") attached on issue. Any reference herein to Coupons or coupons shall, unless the context otherwise requires, be deemed to include a reference to Talons or talons. Definitive Bearer Notes repayable in instalments have receipts ("**Receipts**") for the payment of the instalments of principal (other than the final instalment) attached on issue. Registered Notes and Global Notes do not have Receipts, Coupons or Talons attached on issue.

The final terms for this Note (or the relevant provisions thereof) are set out in Part A of the Final Terms attached to or endorsed on this Note which supplement these Terms and Conditions (the "**Conditions**") and may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the Conditions, replace or modify the Conditions for the purposes of this Note.

References to the "**applicable Final Terms**" are to Part A of the Final Terms (or the relevant provisions thereof) attached to or endorsed on this Note.

If the Issuer is ADCB Finance (Cayman) Limited, the payment of all amounts in respect of this Note has been guaranteed by the Guarantor pursuant to an amended and restated guarantee (the "**Guarantee**") dated 21 October 2010 and executed by the Guarantor. The original of the Guarantee is held by the Principal Paying Agent on behalf of the Noteholders, the Receiptholders and the Couponholders at its specified office. If the Issuer is Abu Dhabi Commercial Bank P.J.S.C., references to the Guarantor and the Guarantee are not applicable.

Any reference to "**Noteholders**" or "**holders**" in relation to any Notes shall mean (in the case of Bearer Notes) the holders of the Notes and (in the case of Registered Notes) the persons in whose name the Notes are registered and shall, in relation to any Notes represented by a Global Note, be construed as provided below.

Any reference herein to "**Receiptholders**" shall mean the holders of the Receipts and any reference herein to "Couponholders" shall mean the holders of the Coupons and shall, unless the context otherwise requires, include the holders of the Talons.

As used herein, "**Tranche**" means Notes which are identical in all respects (including as to listing and admission to trading) and "**Series**" means a Tranche of Notes together with any further Tranche or Tranches of Notes which are (a) expressed to be consolidated and form a single series and (b) identical in all respects (including as to listing and admission to trading) except for their respective Issue Dates, Interest Commencement Dates and/or Issue Prices.

The Noteholders, the Receiptholders and the Couponholders are entitled to the benefit of the Amended and Restated Deed of Covenant (the "**Deed of Covenant**") dated 21 October 2010 and made by the Issuer. The original of the Deed of Covenant is held by the common depositary for Euroclear (as defined below) and Clearstream, Luxembourg (as defined below).

Copies of the Agency Agreement, the Guarantee, a deed poll (the "**Deed Poll**") dated 21 October 2010 and made by the Issuer and the Guarantor and the Deed of Covenant are available for inspection during normal business hours at the specified office of each of the Paying Agents. Copies of the applicable Final Terms are available for viewing at the specified office of each of the Paying Agents, the Registrar and Transfer Agents (such Agents and the Registrar being together referred to as the "**Agents**") and copies may be obtained from the registered office of the Issuer, ADCB TOWER, Head Office, Salam Street, P.O. Box 939, Abu Dhabi, the United Arab Emirates. The Noteholders, the Receiptholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Guarantee, the Deed Poll, the Deed of Covenant and the applicable Final Terms which are applicable to them. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the applicable Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and **provided that**, in the event of inconsistency between the Agency Agreement and the applicable Final Terms, the applicable Final Terms will prevail.

1. FORM, DENOMINATION AND TITLE

The Notes are in bearer form or in registered form as specified in the applicable Final Terms and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination(s). Notes of one Specified Denomination may not be exchanged for Notes of another Specified Denomination and Bearer Notes may not be exchanged for Registered Notes and vice versa.

This Note may be a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note, an Index Linked Interest Note, a Dual Currency Interest Note or a combination of any of the foregoing, depending upon the Interest Basis shown in the applicable Final Terms.

This Note may be an Index Linked Redemption Note, an Instalment Note, a Dual Currency Redemption Note, a Partly Paid Note or a combination of any of the foregoing, depending upon the Redemption/Payment Basis shown in the applicable Final Terms.

This Note is a Senior Note or a Subordinated Note depending upon the status specified in the applicable Final Terms.

Definitive Bearer Notes are issued with Coupons attached, unless they are Zero Coupon Notes in which case references to Coupons and Couponholders in the Conditions are not applicable.

Subject as set out below, title to the Bearer Notes, Receipts and Coupons will pass by delivery and title to the Registered Notes will pass upon registration of transfers in accordance with the provisions of the Agency Agreement. The Issuer, the Guarantor and any Agent will (except as otherwise required by law) deem and treat the bearer of any Bearer Note, Receipt or Coupon and the registered holder of any Registered Note as the absolute owner thereof (whether or not overdue and notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft thereof) for all purposes but, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank S.A./N.V. ("**Euroclear**") and/or Clearstream Banking, société anonyme ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Notes (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error or proven error) shall be treated by the Issuer, the Guarantor and the Paying Agents as the holder of such nominal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Notes, for which purpose the bearer of the relevant Bearer Global Note or the registered holder of the relevant Registered Global Note shall be treated by the Issuer, the Guarantor and any Paying Agent as the holder of such nominal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

For so long as the Depository Trust Company ("**DTC**") or its nominee is the registered owner or holder of a Registered Global Note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the Notes represented by such Registered Global Note for all purposes under the Agency Agreement and the Notes except to the extent that in accordance with DTC's published rules and procedures any ownership rights may be exercised by its participants or beneficial owners through participants.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of DTC, Euroclear and Clearstream, Luxembourg, as the case may be.

References to DTC, Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the applicable Final Terms.

2. TRANSFERS OF REGISTERED NOTES

2.1 Transfers of interests in Registered Global Notes

Transfers of beneficial interests in Registered Global Notes will be effected by DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and, in turn, by other participants and, if appropriate, indirect participants in such clearing systems acting on behalf of beneficial transferors and transferees of such interests. A beneficial interest in a Registered Global Note will, subject to compliance with all applicable legal and regulatory restrictions, be transferable for Notes in definitive form or for a beneficial interest in another Registered Global Note only in the authorised denominations set out in the applicable Final Terms and only in accordance with the rules and operating procedures for the time being of DTC, Euroclear or Clearstream, Luxembourg, as the case may be, and in accordance with the terms and conditions specified in the Agency Agreement. Transfers of a Registered Global Note registered in the name of a nominee for DTC shall be limited to transfers of such Registered Global Note, in whole but not in part, to another nominee of DTC or to a successor of DTC or such successor's nominee.

2.2 Transfers of Registered Notes in definitive form

Subject as provided in paragraphs 2.5, 2.6 and 2.7 below, upon the terms and subject to the conditions set forth in the Agency Agreement, a Registered Note in definitive form may be transferred in whole or in part (in the authorised denominations set out in the applicable Final Terms). In order to effect any such transfer (i) the holder or holders must (A) surrender the Registered Note for registration of the transfer of the Registered Note (or the relevant part of the Registered Note) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing and (B) complete and deposit such other certifications as may be required by the relevant Transfer Agent and (ii) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 8 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within three business days (being for this purpose a day on which banks are open for business in the city where the specified office of the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), deliver, or procure the delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Registered Note in definitive form of a like aggregate nominal amount to the Registered Note (or the relevant part of the Registered Note) transferred. In the case of the transfer of part only of a Registered Note in definitive form, a new Registered Note in definitive form in respect of the balance of the Registered Note not transferred will be so delivered or (at the risk of the transferor) sent to the transferor. A Registered Note may not be transferred unless the nominal amount of Registered Notes transferred and (where not all of the Registered Notes held by a transferor are being transferred) the nominal amount of the balance of Registered Notes not transferred are Specified Denominations.

2.3 Registration of transfer upon partial redemption

In the event of a partial redemption of Notes under Condition 8, the Issuer shall not be required to register the transfer of any Registered Note, or part of a Registered Note, called for partial redemption.

2.4 Costs of registration

Noteholders will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

2.5 Transfers of interests in Regulation S Global Notes

Prior to expiry of the applicable Distribution Compliance Period, transfers by the holder of, or of a beneficial interest in, a Regulation S Global Note to a transferee in the United States or who is a U.S. person will only be made:

(i) upon receipt by the Registrar of a written certification substantially in the form set out in the Agency Agreement, amended as appropriate (a "**Transfer Certificate**"), copies of which are available from the specified office of any Transfer Agent, from the transferor of the Note or beneficial interest therein to the effect that such transfer is being made to a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A; or

(ii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

In the case of (i) above, such transferee may take delivery through a Legended Note in global or definitive form. After expiry of the applicable Distribution Compliance Period (i) beneficial interests in Regulation S Global Notes registered in the name of a nominee for DTC may be held through DTC directly, by a participant in DTC, or indirectly through a participant in DTC and (ii) such certification requirements will no longer apply to such transfers.

2.6 Transfers of interests in Legended Notes

Transfers of Legended Notes or beneficial interests therein may be made:

(i) to a transferee who takes delivery of such interest through a Regulation S Global Note, upon receipt by the Registrar of a duly completed Transfer Certificate from the transferor to the effect that such transfer is being made in accordance with Regulation S and that in the case of a Regulation S Global Note registered in the name of a nominee for DTC, if such transfer is being made prior to expiry of the applicable Distribution Compliance Period, the interests in the Notes being transferred will be held immediately thereafter through Euroclear and/or Clearstream, Luxembourg; or

(ii) to a transferee who takes delivery of such interest through a Legended Note where the transferee is a person whom the transferor reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, without certification; or

(iii) otherwise pursuant to the Securities Act or an exemption therefrom, subject to receipt by the Issuer of such satisfactory evidence as the Issuer may reasonably require, which may include an opinion of U.S. counsel, that such transfer is in compliance with any applicable securities laws of any State of the United States,

and, in each case, in accordance with any applicable securities laws of any State of the United States or any other jurisdiction.

Upon the transfer, exchange or replacement of Legended Notes, or upon specific request for removal of the Legend, the Registrar shall deliver only Legended Notes or refuse to remove the Legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence as may reasonably be required by the Issuer, which may include an opinion of U.S. counsel, that neither the Legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

2.7 Exchanges and transfers of Registered Notes generally

Holders of Registered Notes in definitive form may exchange such Notes for interests in a Registered Global Note of the same type at any time.

2.8 Definitions

In this Condition, the following expressions shall have the following meanings:

"**Distribution Compliance Period**" means the period that ends 40 days after the completion of the distribution of each Tranche of Notes, as certified by the relevant Dealer (in the case of a non-syndicated issue) or the relevant Lead Manager (in the case of a syndicated issue);

"**Legended Note**" means Registered Notes (whether in definitive form or represented by a Registered Global Note) sold in private transactions to QIBs in accordance with the requirements of Rule 144A which bear a legend specifying certain restrictions on transfer (a "**Legend**");

"**QIB**" means a "qualified institutional buyer" within the meaning of Rule 144A;

"**Regulation S**" means Regulation S under the Securities Act;

"**Regulation S Global Note**" means a Registered Global Note representing Notes sold outside the United States in reliance on Regulation S;

"**Rule 144A**" means Rule 144A under the Securities Act;

"**Rule 144A Global Note**" means a Registered Global Note representing Notes sold in the United States or to persons that are QIBs; and

"**Securities Act**" means the United States Securities Act of 1933, as amended.

3. STATUS

3.1 Status of the Senior Notes

The Senior Notes and any relative Receipts and Coupons are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations (other than subordinated obligations, if any) of the Issuer, from time to time outstanding.

3.2 Status of the Guarantee in respect of the Senior Notes

The obligations of the Guarantor under the Guarantee in respect of the Senior Notes are direct, unconditional, unsubordinated and (subject to the provisions of Condition 4) unsecured obligations of the Guarantor and (save for certain obligations required to be preferred by law) rank equally with all other unsecured obligations (other than subordinated obligations, if any) of the Guarantor, from time to time outstanding.

3.3 Status of the Subordinated Notes

The Subordinated Notes and any relative Receipts and Coupons are direct, conditional as described below and unsecured obligations of the Issuer and rank *pari passu* among themselves.

The payment obligations of the Issuer in respect of the Subordinated Notes (whether on account of principal, interest or otherwise) will be subordinated to all unsubordinated payment obligations of the Issuer in the manner described below but will rank *pari passu* with all other subordinated payment obligations of the Issuer which do not rank or are not expressed by their terms to rank junior to the payment obligations under the Subordinated Notes and in priority to all claims of shareholders of the Issuer. The rights of the holders of Subordinated Notes against the Issuer are subordinated in right of payment to the claims of all Senior Creditors of the Issuer and accordingly payments in respect of the Subordinated Notes (whether on account of principal, interest or otherwise) by the Issuer are conditional upon both the Issuer and the Guarantor being solvent at the time of such payment and no payment shall be payable by the Issuer in respect of the Subordinated Notes except to the extent that the Issuer could make such payment and still be solvent immediately thereafter. For this purpose the Issuer shall be solvent if (i) it is able to pay its debts as they fall due and (ii) its Assets exceed its Liabilities, and, in this Condition 3.3 the following expressions shall have the following meanings:

"**Assets**" means the unconsolidated gross assets of the Issuer as shown in the latest published audited (if available) balance sheet of the Issuer, but adjusted for subsequent events in such manner as the directors of the Issuer, the auditors of the Issuer or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of the Issuer) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

"**Liabilities**" means the unconsolidated gross liabilities of the Issuer as shown in the latest published audited (if available) balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events in such manner as the directors of the Issuer, the auditors of the Issuer or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of the Issuer) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine; and

"**Senior Creditors**" shall mean creditors of the Issuer (including depositors) other than creditors in respect of indebtedness where, by the terms of such indebtedness, the claims of the holders of that indebtedness rank or are expressed to rank *pari passu* with, or junior to, the claims of the holders of the Subordinated Notes.

Each holder of a Subordinated Note unconditionally and irrevocably waives any right of setoff, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of such Note. No collateral is or will be given for the payment obligations under the Subordinated Notes and any collateral that may have been or may in the future be given in connection with other indebtedness of the Issuer shall not secure the payment obligations under the Subordinated Notes.

3.4 Status of the Guarantee in respect of the Subordinated Notes

The Guarantee is a direct, conditional as described below and unsecured obligation of the Guarantor.

The payment obligations of the Guarantor under the Guarantee in respect of the Subordinated Notes will be subordinated to all unsubordinated payment obligations of the Guarantor in the manner described below but will rank *pari passu* with all other subordinated payment obligations of the Guarantor which do not rank or are not expressed by their terms to rank junior to the payment obligations of the Guarantor under the Guarantee in respect of the Subordinated Notes and in priority to all claims of shareholders of the Guarantor. The rights of the holders of Subordinated Notes against the Guarantor under the Guarantee in respect of the Subordinated Notes are subordinated in right of payment to the claims of all Senior Creditors of the Guarantor and accordingly payments in respect of the Guarantee in respect of the Subordinated Notes by the Guarantor are conditional upon the Guarantor being solvent at the time of such payment and no payment shall be payable by the Guarantor under that Guarantee except to the extent that the Guarantor could make such payment and still be solvent immediately thereafter. For this purpose the Guarantor shall be solvent if (i) it is able to pay its debts as they fall due and (ii) its Assets exceed its Liabilities, and, in this Condition 3.4, the following expressions shall have the following meanings:

"**Assets**" means the unconsolidated gross assets of the Guarantor as shown in the latest published audited balance sheet of the Guarantor, but adjusted for subsequent events in such manner as the directors of the Guarantor, the auditors of the Guarantor or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of the Guarantor) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

"**Liabilities**" means the unconsolidated gross liabilities of the Guarantor as shown in the latest published audited balance sheet of the Guarantor, but adjusted for contingent liabilities and for subsequent events in such manner as the directors of the Guarantor, the auditors of the Guarantor or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of the Guarantor) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine; and

"**Senior Creditors**" shall mean creditors of the Guarantor (including depositors) other than creditors in respect of indebtedness where, by the terms of such indebtedness, the claims of the holders of that indebtedness rank or are expressed to rank *pari passu* with, or junior to, the claims of the holders under the Subordinated Guarantee.

Each holder of a Subordinated Note unconditionally and irrevocably waives any right of setoff, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of the Guarantee in respect of the Subordinated Notes. No collateral is or will be given for the payment obligations under the Guarantee in respect of the Subordinated Notes and any collateral that may have been or may in the future be given in connection with other indebtedness of the Guarantor shall not secure the payment obligations of the Guarantor under the Guarantee in respect of the Subordinated Notes.

4. NEGATIVE PLEDGE

This Condition 4 only applies to Senior Notes.

So long as any Note remains outstanding (as defined in the Agency Agreement), the Issuer shall not, and the Issuer shall procure that none of its Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Indebtedness or guarantee of Indebtedness, other than a Permitted Security Interest, without (a) at the same time or prior thereto securing the Notes equally and rateably therewith or (b) providing such other security for the Notes as may be approved by Extraordinary Resolution (as defined in the Agency Agreement).

In these Conditions:

"**guarantee**" means, in relation to any Indebtedness of any Person, any obligation of another Person to pay such Indebtedness including (without limitation):

(i) any obligation to purchase such Indebtedness;

(ii) any obligation to lend money, to purchase or subscribe shares or other securities or to purchase assets or services in order to provide funds for the payment of such Indebtedness;

(iii) any indemnity against the consequences of a default in the payment of such Indebtedness; and

(iv) any other agreement to be responsible for such Indebtedness;

"**Indebtedness**" means any indebtedness which is in the form of, or represented or evidenced by, certificates, bonds, notes, debentures, loan stock or other securities which for the time being are, or are intended to be or are capable of being, quoted, listed or dealt in or traded on any stock exchange or over-the-counter or other securities market;

"**Non-recourse Project Financing**" means any financing of all or part of the costs of the acquisition, construction or development of any project, **provided that** (i) any Security Interest given by the Issuer or any of its Subsidiaries in connection therewith is limited solely to the assets of the project, (ii) the Persons providing such financing expressly agree to limit their recourse to the project financed and the revenues derived from such project as the principal source of repayment for the moneys advanced and (iii) there is no other recourse to the Issuer or any of its Subsidiaries in respect of any default by any Person under the financing;

"**Permitted Security Interest**" means:

(i) any Security Interest created or outstanding with the approval of an Extraordinary Resolution;

(ii) any Security Interest arising by operation of law, **provided that** such Security Interest is discharged within 30 days of arising; and

(iii) any Security Interest granted to secure a Non-recourse Project Financing or to secure any Indebtedness incurred in connection with a Securitisation.

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Securitisation**" means any securitisation (Islamic or otherwise) of existing or future assets and/or revenues, **provided that** (i) any Security Interest given by the Issuer or any of its Subsidiaries in connection therewith is limited solely to the assets and/or revenues which are the subject of the securitisation, (ii) each Person participating in such securitisation expressly agrees to limit its recourse to the assets and/or revenues securitised as the principal source of repayment for the moneys advanced or payment of any other liability and (iii) there is no other recourse to the Issuer or any of its Subsidiaries in respect of any default by any Person under the securitisation;

"**Security Interest**" means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

"**Subsidiary**" means in relation to any Person (the "**first person**") at any particular time, any other Person (the "**second person**"):

(i) whose affairs and policies the first Person controls or has power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second person or otherwise; or

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first person.

The Guarantor has agreed in the Guarantee in respect of the Senior Notes that, so long as any Senior Note remains outstanding (as defined in the Agency Agreement), the Guarantor shall not, and the Guarantor shall procure that none of its Subsidiaries will, create or permit to subsist any Security Interest upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital) to secure any Indebtedness or Guarantee of Indebtedness, other than a Permitted Security Interest, without (a) at the same time or prior thereto securing the Guarantee in respect of the Senior Notes equally and rateably therewith or (b) providing such other security for the Guarantee in respect of the Senior Notes as may be approved by Extraordinary Resolution (as defined in the Agency Agreement). Capitalised terms used in this paragraph are defined in the Guarantee in a manner which is substantially similar to the definitions set out above.

5. REDENOMINATION

5.1 Redenomination

Where redenomination is specified in the applicable Final Terms as being applicable, the Issuer may, without the consent of the Noteholders, the Receiptholders and the Couponholders, on giving prior notice to the Principal Paying Agent, Euroclear and Clearstream, Luxembourg and at least 30 days' prior notice to the Noteholders in accordance with Condition 15, elect that, with effect from the Redenomination Date specified in the notice, the Notes shall be redenominated in euro.

The election will have effect as follows:

(a) the Notes and the Receipts shall be deemed to be redenominated in euro in the denomination of euro 0.01 with a nominal amount for each Note and Receipt equal to the nominal amount of that Note or Receipt in the Specified Currency, converted into euro at the Established Rate, **provided that**, if the Issuer determines, with the agreement of the Principal Paying Agent, that the then market practice in respect of the redenomination in euro of internationally offered securities is different from the provisions specified above, such provisions shall be deemed to be amended so as to comply with such market practice and the Issuer shall promptly notify the Noteholders, the stock exchange (if any) on which the Notes may be listed and the Agents of such deemed amendments;

(b) save to the extent that an Exchange Notice has been given in accordance with paragraph (d) below, the amount of interest due in respect of the Notes will be calculated by reference to the aggregate nominal amount of Notes presented (or, as the case may be, in respect of which Coupons are presented) for payment by the relevant holder and the amount of such payment shall be rounded down to the nearest euro 0.01;

(c) if definitive Notes are required to be issued after the Redenomination Date, they shall be issued at the expense of the Issuer (i) in the case of Relevant Notes in the denomination of euro 100,000 and/or such higher amounts as the Principal Paying Agent may determine and notify to the Noteholders and any remaining amounts less than euro 100,000 shall be redeemed by the Issuer and paid to the Noteholders in euro in accordance with Condition 7; and (ii) in the case of Notes which are not Relevant Notes, in the denominations of euro 1,000, euro 10,000, euro 100,000 and (but only to the extent of any remaining amounts less than euro 1,000 or such smaller denominations as the Principal Paying Agent may approve) euro 0.01 and such other denominations as the Principal Paying Agent shall determine and notify to the Noteholders;

(d) if issued prior to the Redenomination Date, all unmatured Coupons denominated in the Specified Currency (whether or not attached to the Notes) will become void with effect from the date on which the Issuer gives notice (the Exchange Notice) that replacement euro-denominated Notes, Receipts and Coupons are available for exchange (**provided that** such securities are so available) and no payments will be made in respect of them. The payment obligations contained in any Notes and Receipts so issued will also become void on that date although those Notes and Receipts will continue to constitute valid exchange obligations of the Issuer. New euro-denominated Notes, Receipts and Coupons will be issued in exchange for Notes, Receipts and Coupons denominated in the Specified Currency in such manner as the Principal Paying Agent may specify and as shall be notified to the Noteholders in the Exchange Notice. No Exchange Notice may be given less than 15 days prior to any date for payment of principal or interest on the Notes;

(e) after the Redenomination Date, all payments in respect of the Notes, the Receipts and the Coupons, other than payments of interest in respect of periods commencing before the Redenomination Date, will be made solely in euro as though references in the Notes to the Specified Currency were to euro. Payments will be made in euro by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee;

(f) if the Notes are Fixed Rate Notes and interest for any period ending on or after the Redenomination Date is required to be calculated for a period ending other than on an Interest Payment Date, it will be calculated:

(i) in the case of the Notes represented by a Global Note, by applying the Rate of Interest to the aggregate outstanding nominal amount of the Notes; and

(ii) in the case of definitive Notes, by applying the Rate of Interest to the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding; and

(g) if the Notes are Floating Rate Notes, the applicable Final Terms will specify any relevant changes to the provisions relating to interest.

5.2 Definitions

In the Conditions, the following expressions have the following meanings:

"**Established Rate**" means the rate for the conversion of the Specified Currency (including compliance with rules relating to roundings in accordance with applicable European Union regulations) into euro established by the Council of the European Union pursuant to Article 140 of the Treaty;

"**euro**" means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty;

"**Redenomination Date**" means (in the case of interest bearing Notes) any date for payment of interest under the Notes or (in the case of Zero Coupon Notes) any date, in each case specified by the Issuer in the notice given to the Noteholders pursuant to Condition 5.1 above and which falls on or after the date on which the country of the Specified Currency first participates in the third stage of European economic and monetary union;

"**Relevant Notes**" means all Notes where the applicable Final Terms provide for a minimum Specified Denomination in the Specified Currency which is equivalent to at least euro 100,000 and which are admitted to trading on a regulated market in the European Economic Area; and

"**Treaty**" means the Treaty on the Functioning of the European Union, as amended.

6. INTEREST

6.1 Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest from (and including) the Interest Commencement Date at the rate(s) per annum equal to the Rate(s) of Interest. Interest will be payable in arrear on the Interest Payment Date(s) in each year up to (and including) the Maturity Date.

If the Notes are in definitive form, except as provided in the applicable Final Terms, the amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such date will amount to the Fixed Coupon Amount. Payments of interest on any Interest Payment Date will, if so specified in the applicable Final Terms, amount to the Broken Amount so specified.

As used in the Conditions, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

Except in the case of Notes in definitive form where an applicable Fixed Coupon Amount or Broken Amount is specified in the applicable Final Terms, interest shall be calculated in respect of any period by applying the Rate of Interest to:

(A) in the case of Fixed Rate Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Fixed Rate Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Fixed Rate Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Fixed Rate Note in definitive form is a multiple of the Calculation Amount, the amount of interest payable in respect of such Fixed Rate Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 6.1:

(a) if "Actual/Actual (ICMA)" is specified in the applicable Final Terms:

(i) in the case of Notes where the number of days in the relevant period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (the "**Accrual Period**") is equal to or shorter than the Determination Period during which the Accrual Period ends, the number of days in such Accrual Period divided by the product of (A) the number of days in such Determination Period and (B) the number of Determination Dates (as specified in the applicable Final Terms) that would occur in one calendar year; or

(ii) in the case of Notes where the Accrual Period is longer than the Determination Period during which the Accrual Period ends, the sum of:

(A) the number of days in such Accrual Period falling in the Determination Period in which the Accrual Period begins divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(B) the number of days in such Accrual Period falling in the next Determination Period divided by the product of (x) the number of days in such Determination Period and (y) the number of Determination Dates that would occur in one calendar year; and

(b) if "30/360" is specified in the applicable Final Terms, the number of days in the period from (and including) the most recent Interest Payment Date (or, if none, the Interest Commencement Date) to (but excluding) the relevant payment date (such number of days being calculated on the basis of a year of 360 days with 12 30-day months) divided by 360.

In the Conditions:

"**Determination Period**" means each period from (and including) a Determination Date to (but excluding) the next Determination Date (including, where either the Interest Commencement Date or the final Interest Payment Date is not a Determination Date, the period commencing on the first Determination Date prior to, and ending on the first Determination Date falling after, such date); and

"**sub-unit**" means, with respect to any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, with respect to euro, one cent.

6.2 Interest on Floating Rate Notes and Index Linked Interest Notes

(a) Interest Payment Dates

Each Floating Rate Note and Index Linked Interest Note bears interest from (and including) the Interest Commencement Date and such interest will be payable in arrear on either:

(i) the Specified Interest Payment Date(s) in each year specified in the applicable Final Terms; or

(ii) if no Specified Interest Payment Date(s) is/are specified in the applicable Final Terms, each date (each such date, together with each Specified Interest Payment Date, an "**Interest Payment Date**") which falls the number of months or other period specified as the Specified Period in the applicable Final Terms after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date.

Such interest will be payable in respect of each Interest Period (which expression shall, in the Conditions, mean the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date).

If a Business Day Convention is specified in the applicable Final Terms and (x) if there is no numerically corresponding day in the calendar month in which an Interest Payment Date should occur or (y) if any Interest Payment Date would otherwise fall on a day which is not a Business Day, then, if the Business Day Convention specified is:

(A) in any case where Specified Periods are specified in accordance with Condition 6.2(a)(ii) above, the Floating Rate Convention, such Interest Payment Date (a) in the case of (x) above, shall be the last day that is a Business Day in the relevant month and the provisions of (ii) below shall apply *mutatis mutandis* or (b) in the case of (y) above, shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event (i) such Interest Payment Date shall be brought forward to the immediately preceding Business Day and (ii) each subsequent Interest Payment Date shall be the last Business Day in the month which falls the Specified Period after the preceding applicable Interest Payment Date occurred; or

(B) the Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day; or

(C) the Modified Following Business Day Convention, such Interest Payment Date shall be postponed to the next day which is a Business Day unless it would thereby fall into the next calendar month, in which event such Interest Payment Date shall be brought forward to the immediately preceding Business Day; or

(D) the Preceding Business Day Convention, such Interest Payment Date shall be brought forward to the immediately preceding Business Day.

In the Conditions, "**Business Day**" means a day which is both:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London and each Additional Business Centre specified in the applicable Final Terms; and

(b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System (the "**TARGET2 System**") is open.

(b) Rate of Interest

The Rate of Interest payable from time to time in respect of Floating Rate Notes and Index Linked Interest Notes will be determined in the manner specified in the applicable Final Terms.

(i) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will be the relevant ISDA Rate plus or minus (as indicated in the applicable Final Terms) the Margin (if any). For the purposes of this subparagraph (i), "**ISDA Rate**" for an "Interest Period" means a rate equal to the Floating Rate that would be determined by the Principal Paying Agent under an interest rate swap transaction if the Principal Paying Agent were acting as Calculation Agent for that swap transaction under the terms of an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc. and as amended and updated as at the Issue Date of the first Tranche of the Notes (the "**ISDA Definitions**") and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms;

(B) the Designated Maturity is a period specified in the applicable Final Terms; and

(C) the relevant Reset Date is either (I) if the applicable Floating Rate Option is based on the London interbank offered rate ("**LIBOR**") or on the Euro-zone interbank offered rate ("**EURIBOR**"), the first day of that Interest Period or (II) in any other case, as specified in the applicable Final Terms.

For the purposes of this subparagraph (i), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**" and "**Reset Date**" have the meanings given to those terms in the ISDA Definitions.

Unless otherwise stated in the applicable Final Terms the Minimum Rate of Interest shall be deemed to be zero.

(ii) Screen Rate Determination for Floating Rate Notes

Where Screen Rate Determination is specified in the applicable Final Terms as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Period will, subject as provided below, be either:

(A) the offered quotation; or

(B) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate which appears or appear, as the case may be, on the Relevant Screen Page as at 11.00 a.m. (London time, in the case of LIBOR, or Brussels time, in the case of EURIBOR) on the Interest Determination Date in question plus or minus (as indicated in the applicable Final Terms) the Margin (if any), all as determined by the Principal Paying Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Principal Paying Agent for the purpose of determining the arithmetic mean (rounded as provided above) of such offered quotations.

The Agency Agreement contains provisions for determining the Rate of Interest in the event that the Relevant Screen Page is not available or if, in the case of (A) above, no such offered quotation appears or, in the case of (B) above, fewer than three such offered quotations appear, in each case as at the time specified in the preceding paragraph.

If the Reference Rate from time to time in respect of Floating Rate Notes is specified in the applicable Final Terms as being other than LIBOR or EURIBOR, the Rate of Interest in respect of such Notes will be determined as provided in the applicable Final Terms.

(c) Minimum Rate of Interest and/or Maximum Rate of Interest

If the applicable Final Terms specifies a Minimum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is less than such Minimum Rate of Interest, the Rate of Interest for such Interest Period shall be such Minimum Rate of Interest.

If the applicable Final Terms specifies a Maximum Rate of Interest for any Interest Period, then, in the event that the Rate of Interest in respect of such Interest Period determined in accordance with the provisions of paragraph (b) above is greater than such Maximum Rate of Interest, the Rate of Interest for such Interest Period shall be such Maximum Rate of Interest.

(d) Determination of Rate of Interest and calculation of Interest Amounts

The Principal Paying Agent, in the case of Floating Rate Notes, and the Calculation Agent, in the case of Index Linked Interest Notes, will at or as soon as practicable after each time at which the Rate of Interest is to be determined, determine the Rate of Interest for the relevant Interest Period. In the case of Index Linked Interest Notes, the Calculation Agent will notify the Principal Paying Agent of the Rate of Interest for the relevant Interest Period as soon as practicable after calculating the same.

The Principal Paying Agent will calculate the amount of interest (the "**Interest Amount**") payable on the Floating Rate Notes or Index Linked Interest Notes for the relevant Interest Period by applying the Rate of Interest to:

(A) in the case of Floating Rate Notes or Index Linked Interest Notes which are represented by a Global Note, the aggregate outstanding nominal amount of the Notes represented by such Global Note (or, if they are Partly Paid Notes, the aggregate amount paid up); or

(B) in the case of Floating Rate Notes or Index Linked Interest Notes in definitive form, the Calculation Amount;

and, in each case, multiplying such sum by the applicable Day Count Fraction, and rounding the resultant figure to the nearest sub-unit of the relevant Specified Currency, half of any such sub-unit being rounded upwards or otherwise in accordance with applicable market convention. Where the Specified Denomination of a Floating Rate Note or an Index Linked Interest Note in definitive form is a multiple of the Calculation Amount, the Interest Amount payable in respect of such Note shall be the product of the amount (determined in the manner provided above) for the Calculation Amount and the amount by which the Calculation Amount is multiplied to reach the Specified Denomination, without any further rounding.

"**Day Count Fraction**" means, in respect of the calculation of an amount of interest in accordance with this Condition 6.2:

(i) if "Actual/Actual (ISDA)" or "Actual/Actual" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 (or, if any portion of that Interest Period falls in a leap year, the sum of (A) the actual number of days in that portion of the Interest Period falling in a leap year divided by 366 and (B) the actual number of days in that portion of the Interest Period falling in a non-leap year divided by 365);

(ii) if "Actual/365 (Fixed)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365;

(iii) if "Actual/365 (Sterling)" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 365 or, in the case of an Interest Payment Date falling in a leap year, 366;

(iv) if "Actual/360" is specified in the applicable Final Terms, the actual number of days in the Interest Period divided by 360;

(v) if "30/360", "360/360" or "Bond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y2 - Y1)] + [30 \text{ x } (M2 - M1)] + (D2 - D1)}{360}$$

Where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number is 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30;

(vi) if "30E/360" or "Eurobond Basis" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y2 - Y1)] + [30 \text{ x } (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless such number would be 31, in which case D2 will be 30; and

(vii) If "30E/360 (ISDA)" is specified in the applicable Final Terms, the number of days in the Interest Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \text{ x } (Y2 - Y1)] + [30 \text{ x } (M2 - M1)] + (D2 - D1)}{360}$$

where:

"Y1" is the year, expressed as a number, in which the first day of the Interest Period falls;

"Y2" is the year, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"M1" is the calendar month, expressed as a number, in which the first day of the Interest Period falls;

"M2" is the calendar month, expressed as a number, in which the day immediately following the last day of the Interest Period falls;

"D1" is the first calendar day, expressed as a number, of the Interest Period, unless (i) that day is the last day of February or (ii) such number would be 31, in which case D1 will be 30; and

"D2" is the calendar day, expressed as a number, immediately following the last day included in the Interest Period, unless (i) that day is the last day of February but not the Maturity Date or (ii) such number would be 31, in which case D2 will be 30.

(e) Notification of Rate of Interest and Interest Amounts

The Principal Paying Agent will cause the Rate of Interest and each Interest Amount for each Interest Period and the relevant Interest Payment Date to be notified to the Issuer, the Guarantor and any stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed (by no later than the second London Business Day after the Interest Determination Date) and notice thereof to be published in accordance with Condition 15 as soon as possible after their determination but in no event later than the fourth London Business Day thereafter. Each Interest Amount and Interest Payment Date so notified may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without prior notice in the event of an extension or shortening of the Interest Period. Any such amendment will be promptly notified to each stock exchange on which the relevant Floating Rate Notes or Index Linked Interest Notes are for the time being listed and to the Noteholders in accordance with Condition 15. For the purposes of this paragraph, the expression "**London Business Day**" means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for general business in London.

(f) ***Certificates to be final***

All certificates, communications, opinions, determinations, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 6.2, whether by the Principal Paying Agent or, if applicable, the Calculation Agent, shall (in the absence of wilful default, bad faith or manifest error or proven error) be binding on the Issuer, the Guarantor, the Principal Paying Agent, the Calculation Agent (if applicable), the other Agents and all Noteholders, Receiptholders and Couponholders and (in the absence as aforesaid) no liability to the Issuer, the Guarantor, the Noteholders, the Receiptholders or the Couponholders shall attach to the Principal Paying Agent or, if applicable, the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions pursuant to such provisions.

6.3 Interest on Dual Currency Interest Notes

The rate or amount of interest payable in respect of Dual Currency Interest Notes shall be determined in the manner specified in the applicable Final Terms.

6.4 Interest on Partly Paid Notes

In the case of Partly Paid Notes (other than Partly Paid Notes which are Zero Coupon Notes), interest will accrue as aforesaid on the paid-up nominal amount of such Notes and otherwise as specified in the applicable Final Terms.

6.5 Accrual of interest

Each Note (or in the case of the redemption of part only of a Note, that part only of such Note) will cease to bear interest (if any) from the date for its redemption unless, upon due presentation thereof, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Note has been received by the Principal Paying Agent or the Registrar, as the case may be, and notice to that effect has been given to the Noteholders in accordance with Condition 15.

7. PAYMENTS

7.1 Method of payment

Subject as provided below:

(a) payments in a Specified Currency other than euro will be made by credit or transfer to an account in the relevant Specified Currency maintained by the payee with a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively); and

(b) payments in euro will be made by credit or transfer to a euro account (or any other account to which euro may be credited or transferred) specified by the payee.

Payments will be subject in all cases to any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 9.

7.2 Presentation of definitive Bearer Notes, Receipts and Coupons

Payments of principal in respect of definitive Bearer Notes will (subject as provided below) be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of definitive Bearer Notes, and payments of interest in respect of definitive Bearer Notes will (subject as provided below) be made as aforesaid only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of Coupons, in each case at the specified office of any Paying Agent outside the United States (which expression, as used herein, means the United States of America (including the States and the District of Columbia and its possessions)).

Payments of instalments of principal (if any) in respect of definitive Bearer Notes, other than the final instalment, will (subject as provided below) be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Receipt in accordance with the preceding paragraph.

Payment of the final instalment will be made in the manner provided in Condition 7.1 above only against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the relevant Bearer Note in accordance with the preceding paragraph. Each Receipt must be presented for payment of the relevant instalment together with the definitive Bearer Note to which it appertains. Receipts presented without the definitive Bearer Note to which they appertain do not constitute valid obligations of the Issuer. Upon the date on which any definitive Bearer Note becomes due and repayable, unmatured Receipts (if any) relating thereto (whether or not attached) shall become void and no payment shall be made in respect thereof.

Fixed Rate Notes in definitive bearer form (other than Dual Currency Notes, Index Linked Notes or Long Maturity Notes (as defined below)) should be presented for payment together with all unmatured Coupons appertaining thereto (which expression shall for this purpose include Coupons falling to be issued on exchange of matured Talons), failing which the amount of any missing unmatured Coupon (or, in the case of payment not being made in full, the same proportion of the amount of such missing unmatured Coupon as the sum so paid bears to the sum due) will be deducted from the sum due for payment. Each amount of principal so deducted will be paid in the manner mentioned above against surrender of the relative missing Coupon at any time before the expiry of 10 years after the Relevant Date (as defined in Condition 9) in respect of such principal (whether or not such Coupon would otherwise have become void under Condition 10) or, if later, five years from the date on which such Coupon would otherwise have become due, but in no event thereafter.

Upon any Fixed Rate Note in definitive bearer form becoming due and repayable prior to its Maturity Date, all unmatured Talons (if any) appertaining thereto will become void and no further Coupons will be issued in respect thereof.

Upon the date on which any Floating Rate Note, Dual Currency Note, Index Linked Note or Long Maturity Note in definitive bearer form becomes due and repayable, unmatured Coupons and Talons (if any) relating thereto (whether or not attached) shall become void and no payment or, as the case may be, exchange for further Coupons shall be made in respect thereof. A "**Long Maturity Note**" is a Fixed Rate Note (other than a Fixed Rate Note which on issue had a Talon attached) whose nominal amount on issue is less than the aggregate interest payable thereon **provided that** such Note shall cease to be a Long Maturity Note on the Interest Payment Date on which the aggregate amount of interest remaining to be paid after that date is less than the nominal amount of such Note.

If the due date for redemption of any definitive Bearer Note is not an Interest Payment Date, interest (if any) accrued in respect of such Note from (and including) the preceding Interest Payment Date or, as the case may be, the Interest Commencement Date shall be payable only against surrender of the relevant definitive Bearer Note.

7.3 Payments in respect of Bearer Global Notes

Payments of principal and interest (if any) in respect of Notes represented by any Global Note in bearer form will (subject as provided below) be made in the manner specified above in relation to definitive Bearer Notes or otherwise in the manner specified in the relevant Global Note against presentation or surrender, as the case may be, of such Global Note at the specified office of any Paying Agent outside the United States. A record of each payment so made, distinguishing between any payment of principal and any payment of interest, will be made on any Global Note in bearer form by the Paying Agent to which it was presented and such record shall be *prima facie* evidence that the payment in question has been made.

7.4 Payments in respect of Registered Notes

Payments of principal (other than instalments of principal prior to the final instalment) in respect of each Registered Note (whether or not in global form) will be made against presentation and surrender (or, in the case of part payment of any sum due, endorsement) of the Registered Note at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the

Registered Note appearing in the register of holders of the Registered Notes maintained by the Registrar (the "**Register**") (i) where in global form, at the close of business on the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the third business day (being for this purpose a day on which banks are open for business in the city where the specified office of the Registrar is located) before the relevant due date. Notwithstanding the previous sentence, if (i) a holder does not have a Designated Account or (ii) the principal amount of the Notes held by a holder is less than U.S.$250,000 (or its approximate equivalent in any other Specified Currency), payment will instead be made by a cheque in the Specified Currency drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account (which, in the case of a payment in Japanese yen to a non resident of Japan, shall be a non resident account) maintained by a holder with a Designated Bank and identified as such in the Register and "**Designated Bank**" means (in the case of payment in a Specified Currency other than euro) a bank in the principal financial centre of the country of such Specified Currency (which, if the Specified Currency is Australian dollars or New Zealand dollars, shall be Sydney and Auckland, respectively) and (in the case of a payment in euro) any bank which processes payments in euro.

Payments of interest and payments of instalments of principal (other than the final instalment) in respect of each Registered Note (whether or not in global form) will be made by a cheque in the Specified Currency drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Registered Note appearing in the Register (i) where in global form, at the close of business on the business day (being for this purpose a day on which Euroclear and Clearstream, Luxembourg are open for business) before the relevant due date, and (ii) where in definitive form, at the close of business on the fifteenth day (whether or not such fifteenth day is a business day) before the relevant due date (the "**Record Date**") at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Registered Note, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) and instalments of principal (other than the final instalment) in respect of the Registered Notes which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payment of the interest due in respect of each Registered Note on redemption and the final instalment of principal will be made in the same manner as payment of the principal amount of such Registered Note.

Holders of Registered Notes will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Registered Note as a result of a cheque posted in accordance with this Condition arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Registered Notes.

All amounts payable to DTC or its nominee as registered holder of a Registered Global Note in respect of Notes denominated in a Specified Currency other than U.S. dollars shall be paid by transfer by the Registrar to an account in the relevant Specified Currency of the Exchange Agent on behalf of DTC or its nominee for conversion into and payment in U.S. dollars in accordance with the provisions of the Agency Agreement.

None of the Issuer, the Guarantor or the Agents will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

7.5 General provisions applicable to payments

The holder of a Global Note shall be the only person entitled to receive payments in respect of Notes represented by such Global Note and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Note in respect of each amount so paid. Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or DTC as the beneficial holder of a particular nominal amount of Notes represented by such Global Note must look solely to Euroclear, Clearstream, Luxembourg or DTC, as the case may be, for his share of each payment so made by the Issuer to, or to the order of, the holder of such Global Note.

Notwithstanding the foregoing provisions of this Condition, if any amount of principal and/or interest in respect of Bearer Notes is payable in U.S. dollars, such U.S. dollar payments of principal and/or interest in respect of such Notes will be made at the specified office of a Paying Agent in the United States if:

(a) the Issuer and the Guarantor have appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment in U.S. dollars at such specified offices outside the United States of the full amount of principal and interest on the Bearer Notes in the manner provided above when due;

(b) payment of the full amount of such principal and interest at all such specified offices outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions on the full payment or receipt of principal and interest in U.S. dollars; and

(c) such payment is then permitted under United States law without involving, in the opinion of the Guarantor, adverse tax consequences to the Issuer or the Guarantor.

7.6 Payment Day

If the date for payment of any amount in respect of any Note, Receipt or Coupon is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 10) is:

(a) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in:

    (i) in the case of Notes in definitive form only, the relevant place of presentation;

    (ii) each Additional Financial Centre specified in the applicable Final Terms;

(b) either (i) in relation to any sum payable in a Specified Currency other than euro, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively) or (ii) in relation to any sum payable in euro, a day on which the TARGET2 System is open; and

(c) in the case of any payment in respect of a Registered Global Note denominated in a Specified Currency other than U.S. dollars and registered in the name of DTC or its nominee and in respect of which an accountholder of DTC (with an interest in such Registered Global Note) has elected to receive any part of such payment in U.S. dollars, a day on which commercial banks are not authorised or required by law or regulation to be closed in New York City.

7.7 Interpretation of principal and interest

Any reference in the Conditions to principal in respect of the Notes shall be deemed to include, as applicable:

(a) any additional amounts which may be payable with respect to principal under Condition 9;

(b) the Final Redemption Amount of the Notes;

(c) the Early Redemption Amount of the Notes;

(d) the Optional Redemption Amount(s) (if any) of the Notes;

(e) in relation to Notes redeemable in instalments, the Instalment Amounts;

(f) in relation to Zero Coupon Notes, the Amortised Face Amount (as defined in Condition 8.5); and

(g) any premium and any other amounts (other than interest) which may be payable by the Issuer under or in respect of the Notes. Any reference in the Conditions to interest in respect of the Notes shall be deemed to include, as applicable, any additional amounts which may be payable with respect to interest under Condition 9.

8. REDEMPTION AND PURCHASE

8.1 Redemption at maturity

Unless previously redeemed or purchased and cancelled as specified below, each Note (including each Index Linked Redemption Note and Dual Currency Redemption Note) will be redeemed by the Issuer at its Final Redemption Amount specified in, or determined in the manner specified in, the applicable Final Terms in the relevant Specified Currency on the Maturity Date.

8.2 Redemption for tax reasons

The Notes may (subject, in the case of Subordinated Notes, to the prior approval of the Central Bank of the United Arab Emirates (the "**Regulator**", which expression shall include any successor thereto as the relevant regulator of banks in the United Arab Emirates) where required) be redeemed at the option of the Issuer in whole, but not in part, at any time (if this Note is neither a Floating Rate Note, an Index Linked Interest Note nor a Dual Currency Interest Note) or on any Interest Payment Date (if this Note is either a Floating Rate Note, an Index Linked Interest Note or a Dual Currency Interest Note), on giving not less than 30 nor more than 60 days' notice to the Principal Paying Agent and, in accordance with Condition 15, the Noteholders (which notice shall be irrevocable), if:

(a) on the occasion of the next payment due under the Notes, the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 9 or the Guarantor would be unable for reasons outside its control to procure payment by the Issuer and in making payment itself would be required to pay such additional amounts, in each case as a result of any change in, or amendment to, the laws or regulations of a Relevant Tax Jurisdiction (as defined in Condition 9) or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and

(b) such obligation cannot be avoided by the Issuer or, as the case may be, the Guarantor taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer or, as the case may be, the Guarantor would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition, the Issuer shall deliver to the Principal Paying Agent a certificate signed by two Directors of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred, and an opinion of independent legal advisers of recognised standing to the effect that the Issuer or, as the case may be, the Guarantor has or will become obliged to pay such additional amounts as a result of such change or amendment.

Notes redeemed pursuant to this Condition 8.2 will be redeemed at their Early Redemption Amount referred to in Condition 8.5 below together (if appropriate) with interest accrued to (but excluding) the date of redemption.

8.3 Redemption at the option of the Issuer (Issuer Call)

If Issuer Call is specified in the applicable Final Terms, the Issuer may, having given:

(a) not less than 15 nor more than 30 days' notice to the Noteholders in accordance with Condition 15; and

(b) not less than 15 days before the giving of the notice referred to in (a) above, notice to the Principal Paying Agent and, in the case of a redemption of Registered Notes, the Registrar;

(which notices shall be irrevocable and shall specify the date fixed for redemption), redeem all or some only of the Notes then outstanding on any Optional Redemption Date and at the Optional Redemption Amount(s) specified in, or determined in the manner specified in, the applicable Final Terms together, if appropriate, with interest accrued to (but excluding) the relevant Optional Redemption Date. Any such redemption must be of a nominal amount not less than the Minimum Redemption Amount and not more than the Maximum Redemption Amount, in each case as may be specified in the applicable Final Terms. In the case of a partial redemption of Notes, the Notes to be redeemed ("**Redeemed Notes**") will be selected individually by lot, in the case of Redeemed Notes represented by definitive Notes, and in accordance with the rules of Euroclear and/or Clearstream, Luxembourg and/or DTC, in the case of Redeemed Notes represented by a Global Note, not more than 30 days prior to the date fixed for redemption (such date of selection being hereinafter called the "**Selection Date**"). In the case of Redeemed Notes represented by definitive Notes, a list of the serial numbers of such Redeemed Notes will be published in accordance with Condition 15 not less than 15 days prior to the date fixed for redemption. No exchange of the relevant Global Note will be permitted during the period from (and including) the Selection Date to (and including) the date fixed for redemption pursuant to this Condition 8.3 and notice to that effect shall be given by the Issuer to the Noteholders in accordance with Condition 15 at least five days prior to the Selection Date.

8.4 Redemption at the option of the Noteholders (Investor Put)

If Investor Put is specified in the applicable Final Terms, upon the holder of any Note giving to the Issuer in accordance with Condition 15 not less than 15 nor more than 30 days' notice the Issuer will, upon the expiry of such notice, redeem, subject to, and in accordance with, the terms specified in the applicable Final Terms, such Note on the Optional Redemption Date and at the Optional Redemption Amount together, if appropriate, with interest accrued to (but excluding) the Optional Redemption Date. Registered Notes may be redeemed under this Condition in any multiple of their lowest Specified Denomination. It may be that before an Investor Put can be exercised, certain conditions and/or circumstances will need to be satisfied. Where relevant, the provisions will be set out in the applicable Final Terms.

To exercise the right to require redemption of this Note the holder of this Note must, if this Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes) at any time during normal business hours of such Paying Agent or, as the case may be, the Registrar falling within the notice period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent or, as the case may be, the Registrar (a "**Put Notice**") and in which the holder must specify a bank account to which payment is to be made under this Condition and, in the case of Registered Notes, the nominal amount thereof to be redeemed and, if less than the full nominal amount of the Registered Notes so surrendered is to be redeemed, an address to which a new Registered Note in respect of the balance of such Registered Notes is to be sent subject to and in accordance with the provisions of Condition 2.2. If this Note is in definitive bearer form, the Put Notice must be accompanied by this Note or evidence satisfactory to the Paying Agent concerned that this Note will, following delivery of the Put Notice, be held to its order or under its control. If this Note is represented by a Global Note or is in definitive form and held through Euroclear, Clearstream, Luxembourg or DTC, to exercise the right to require redemption of this Note the holder of this Note must, within the notice period, give notice to the Principal Paying Agent of such exercise in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC (which may include notice being given on his instruction by Euroclear, Clearstream, Luxembourg, DTC or any depositary for them to the Principal Paying Agent by electronic means) in a form acceptable to Euroclear, Clearstream, Luxembourg and DTC from time to time.

Any Put Notice or other notice given in accordance with the standard procedures of Euroclear, Clearstream, Luxembourg and DTC given by a holder of any Note pursuant to this Condition 8.4 shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred, in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 8.4 and instead to declare such Note forthwith due and payable pursuant to Condition 11.

8.5 Early Redemption Amounts

For the purpose of Condition 8.2 above and Condition 11, each Note will be redeemed at its Early Redemption Amount calculated as follows:

(a) in the case of a Note with a Final Redemption Amount equal to the Issue Price, at the Final Redemption Amount thereof;

(b) in the case of a Note (other than a Zero Coupon Note but including an Instalment Note and a Partly Paid Note) with a Final Redemption Amount which is or may be less or greater than the Issue Price or which is payable in a Specified Currency other than that in which the Note is denominated, at the amount specified in, or determined in the manner specified in, the applicable Final Terms or, if no such amount or manner is so specified in the applicable Final Terms, at its nominal amount; or

(c) in the case of a Zero Coupon Note, at an amount (the "**Amortised Face Amount**") calculated in accordance with the following formula:

Early Redemption Amount = $RP \times (1 + AY)^{y}$

where:

RP means the Reference Price;

AY means the Accrual Yield expressed as a decimal; and

y is a fraction the numerator of which is equal to the number of days (calculated on the basis of a 360-day year consisting of 12 months of 30 days each) from (and including) the Issue Date of the first Tranche of the Notes to (but excluding) the date fixed for redemption or (as the case may be) the date upon which such Note becomes due and repayable and the denominator of which is 360,

or on such other calculation basis as may be specified in the applicable Final Terms.

8.6 Instalments

Instalment Notes will be redeemed in the Instalment Amounts and on the Instalment Dates. In the case of early redemption, the Early Redemption Amount will be determined pursuant to Condition 8.5.

8.7 Partly Paid Notes

Partly Paid Notes will be redeemed, whether at maturity, early redemption or otherwise, in accordance with the provisions of this Condition and the applicable Final Terms.

8.8 Purchases

The Issuer, the Guarantor or any Subsidiary of the Issuer or the Guarantor may, (subject, in the case of Subordinated Notes, to the prior approval of the Regulator where required) at any time purchase Notes (**provided that**, in the case of definitive Bearer Notes, all unmatured Receipts, Coupons and Talons appertaining thereto are purchased therewith) at any price in the open market or otherwise. Such Notes may be held, reissued, resold or, at the option of the Issuer or the Guarantor, surrendered to any Paying Agent for cancellation.

8.9 Cancellation

All Notes which are redeemed will forthwith be cancelled (together with all unmatured Receipts, Coupons and Talons attached thereto or surrendered therewith at the time of redemption). All Notes so cancelled and any Notes purchased and cancelled pursuant to Condition 8.8 above (together with all unmatured Receipts, Coupons and Talons cancelled therewith) shall be forwarded to the Principal Paying Agent and cannot be reissued or resold.

8.10 Late payment on Zero Coupon Notes

If the amount payable in respect of any Zero Coupon Note upon redemption of such Zero Coupon Note pursuant to Condition 8.1, 8.2, 8.3 or 8.4 above or upon its becoming due and repayable as provided in Condition 11 is improperly withheld or refused, the amount due and repayable in respect of such Zero Coupon Note shall be the amount calculated as provided in Condition 8.5(c) above as though the references therein to the date fixed for the redemption or the date upon which such Zero Coupon Note becomes due and payable were replaced by references to the date which is the earlier of:

(a) the date on which all amounts due in respect of such Zero Coupon Note have been paid; and

(b) five days after the date on which the full amount of the moneys payable in respect of such Zero Coupon Notes has been received by the Principal Paying Agent or the Registrar and notice to that effect has been given to the Noteholders in accordance with Condition.

9. TAXATION

All payments of principal and interest in respect of the Notes, Receipts and Coupons by the Issuer and all payments under the Guarantee by the Guarantor will be made without withholding or deduction for or on account of any present or future taxes or duties of whatever nature imposed or levied by or on behalf of any Relevant Tax Jurisdiction unless such withholding or deduction is required by law. In such event, the Issuer or, as the case may be, the Guarantor will pay such additional amounts as shall be necessary in order that the net amounts received by the holders of the Notes, Receipts or Coupons after such withholding or deduction shall equal the respective amounts of principal and interest which would otherwise have been receivable in respect of the Notes, Receipts or Coupons, as the case may be, in the absence of such withholding or deduction; except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) presented for payment in a Relevant Tax Jurisdiction; or

(b) presented for payment by or on behalf of a holder who is liable for such taxes or duties in respect of such Note, Receipt or Coupon by reason of his having some connection with a Relevant Tax Jurisdiction other than the mere holding of such Note, Receipt or Coupon; or

(c) presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day assuming that day to have been a Payment Day (as defined in Condition 7.6); or

(d) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or

(e) presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note, Receipt or Coupon to another Paying Agent in a Member State of the European Union.

As used herein:

(i) the "**Relevant Date**" means the date on which such payment first becomes due, except that, if the full amount of the moneys payable has not been duly received by the Principal Paying Agent or the Registrar, as the case may be, on or prior to such due date, it means the date on which, the full amount of such moneys having been so received, notice to that effect is duly given to the Noteholders in accordance with Condition 15; and

(ii) "**Relevant Tax Jurisdiction**" means, if the Issuer is ADCB Finance (Cayman) Limited, the Cayman Islands (in the case of any payment by the Issuer) or the United Arab Emirates or any Emirate therein (in the case of any payment by the Guarantor) or, in either case, any political subdivision or any authority thereof or therein having power to tax and, if the Issuer is Abu Dhabi Commercial Bank P.J.S.C., the United Arab Emirates or any Emirate therein or any political subdivision or any authority thereof or therein having power to tax.

10. PRESCRIPTION

The Notes (whether in bearer or registered form), Receipts and Coupons will become void unless claims in respect of principal and/or interest are made within a period of 10 years (in the case of principal) and five years (in the case of interest) after the Relevant Date (as defined in Condition 9) therefor.

There shall not be included in any Coupon sheet issued on exchange of a Talon any Coupon the claim for payment in respect of which would be void pursuant to this Condition or Condition 7.2 or any Talon which would be void pursuant to Condition 7.2.

11. EVENTS OF DEFAULT

11.1 Event of Default for Senior Notes

This Condition 11.1 only applies to Senior Notes.

If any one or more of the following events (each an "**Event of Default**") shall occur and be continuing:

(a) ***Non Payment***: default is made in the payment of any principal or interest due in respect of the Notes or any of them or the Guarantee and the default continues for a period of seven days in the case of principal and 14 days in the case of interest; or

(b) ***Breach of Obligations***: the Issuer or the Guarantor fails to perform or observe any of its other obligations under the Conditions or the Guarantee and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be required) the failure continues for the period of 30 days next following the service by a Noteholder on the Issuer or the Guarantor of notice requiring the same to be remedied; or

(c) ***Cross Acceleration***: (i) any Relevant Indebtedness of the Issuer or the Guarantor or any of the Guarantor's Principal Subsidiaries is not paid when due or (as the case may be) within any originally applicable grace period, (ii) any such Relevant Indebtedness becomes due and payable prior to its stated maturity by reason of default (however described) or (iii) the Issuer or the Guarantor or any of the Guarantor's Principal Subsidiaries fails to pay when due any amount payable by it under any guarantee of any Relevant Indebtedness, **provided that** the events mentioned in this paragraph (c) shall not constitute an Event of Default unless the aggregate amount of all such Relevant Indebtedness, either alone or when aggregated with all other indebtedness in respect of which such an event shall have occurred and be continuing, shall be more than U.S.$25,000,000 (or its equivalent in any other currency or currencies); or

(d) ***Unsatisfied Judgments***: one or more final non-appealable judgments or orders for the payment of any sum which amount shall not be less than U.S.$15,000,000 is rendered against the Issuer or the Guarantor or any of the Guarantor's Principal Subsidiaries and continues unsatisfied and unstayed for a period of 30 days after the service of any Noteholder on the Issuer or the Guarantor of notice requiring the same to be remedied/paid; or

(e) ***Liquidation and Other Events***:

(i) any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries, save in connection with a Permitted Reorganisation; or

(ii) the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries ceases or threatens to cease to carry on the whole or a Substantial Part of its business, save in connection with a Permitted Reorganisation, or the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(iii) (A) proceedings are initiated against the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official (and such proceedings are not being actively contested in good faith by the Issuer, the Guarantor or the relevant Principal Subsidiary, as the case may be), or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries or, as the case may be, in relation to the whole or a Substantial Part of the undertaking or assets of any of them, or an encumbrancer takes possession of the whole or a Substantial Part of the undertaking or assets of any of them, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a Substantial Part of the undertaking or assets of any of them and (B) in any case (other than the appointment of an administrator) is not discharged within 45 days; or

(iv) the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or, save in connection with a Permitted Reorganisation, any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(v) any event occurs which under the laws of the Cayman Islands or the United Arab Emirates or any Emirate therein or any other jurisdiction has an analogous effect to any of the events referred to in paragraphs (i) to (iii) above;

(f) ***Illegality***: at any time it is or becomes unlawful for the Issuer or the Guarantor to perform or comply with any or all of its obligations under or in respect of the Notes or the Guarantee or any of the material obligations of the Issuer or the Guarantor thereunder are not or cease to be legal, valid, binding or enforceable; or

(g) ***Nationalisation etc.***: by or under the authority of any government, (i) the management of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries is wholly or partially displaced or the authority of the Issuer, the Guarantor or any Principal Subsidiary in the conduct of its business is wholly or partially curtailed or (ii) all or a majority of the issued share capital of the Issuer, the Guarantor or any of the Guarantor's Principal Subsidiaries or the whole or any part (the book value of which is 20 per cent. or more of the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or

(h) ***Change of Control***: the Government at any time ceases to directly or indirectly own not less than 50 per cent. of the issued share capital of the Guarantor; or

(i) ***Cessation of Guarantee***: the Guarantee ceases to be, or is claimed by the Issuer or the Guarantor not to be, in full force and effect,

then any holder of a Note may, by written notice to the Issuer and the Guarantor at the specified office of the Principal Paying Agent, effective upon the date of receipt thereof by the Principal Paying Agent, declare any Note held by it to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment, without presentment, demand, protest or other notice of any kind.

For the purposes of this Condition:

"**Principal Subsidiary**" means a Subsidiary of the Guarantor the book value of the assets of which exceeds ten per cent. of the book value of the consolidated assets of the Guarantor and its Subsidiaries, taken as a whole, or the revenues of which exceed ten per cent. of the consolidated revenues of the Guarantor and its Subsidiaries, taken as a whole and, for these purposes:

(i) the book value of the assets and the revenues of each Subsidiary which is, or might be, a Principal Subsidiary shall be determined by reference to its then most recently audited annual financial statements (consolidated if the same are prepared) or, if none, its then most recent annual management accounts; and

(ii) the book value of the consolidated assets and the consolidated revenues of the Guarantor and its Subsidiaries, taken as a whole, shall be determined by reference to the Guarantor's then most recently audited consolidated annual financial statements;

all as more fully set out in the Agency Agreement. A report by two Directors of the Guarantor that in their opinion a Subsidiary of the Guarantor is or is not or was or was not at any particular time or through any particular period a Principal Subsidiary shall (in the absence of manifest or proven error) be conclusive and binding on the parties;

"**Permitted Reorganisation**" means:

(A) any disposal by any Subsidiary of the Guarantor of the whole or a substantial part of its business, undertaking or assets to the Guarantor or any Relevant Subsidiary of the Guarantor;

(B) any amalgamation, consolidation or merger of a Subsidiary with any other Subsidiary or any other Relevant Subsidiary of the Guarantor; or

(C) any amalgamation, consolidation, restructuring, merger or reorganisation on terms previously approved by an Extraordinary Resolution;

"**Subsidiary**" means in relation to any Person (the first Person) at any particular time, any other Person (the second Person) whose affairs and policies the first Person controls or has power to control, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise.

"**Relevant Subsidiary**" means any Subsidiary which is, directly or indirectly, wholly owned by the Guarantor or which is so wholly-owned except for any nominal third party shareholding required by law;

"**Substantial Part**" means 15 per cent. of the assets of the Guarantor and its consolidated Subsidiaries, taken as a whole; and

"**Relevant Indebtedness**" means, any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 30 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing.

11.2 Events of Default for Subordinated Notes

This Condition 11.2 only applies to Subordinated Notes.

(a) Non Payment

If default is made in the payment of any principal or interest due under the Notes or any of them or the Guarantee and the default continues for a period of seven days in the case of principal and 14 days in the case of interest, any Noteholder may (if the Issuer is ADCB Cayman (Finance) Limited) institute proceedings in the Cayman Islands (but not elsewhere) for the dissolution and liquidation of the Issuer and in the United Arab Emirates or any Emirate therein (but not elsewhere) for the dissolution and liquidation of the Guarantor or (if the Issuer is Abu Dhabi Commercial Bank PJSC) institute proceedings in the United Arab Emirates or any Emirate therein (but not elsewhere) for the dissolution and liquidation of the Issuer.

(b) Liquidation and other events

If any one or more of the following events shall occur and be continuing:

(i) any order is made by any competent court or resolution passed for the winding up or dissolution of the Issuer or the Guarantor, save in connection with a Permitted Reorganisation; or

(ii) the Issuer or the Guarantor ceases or threatens to cease to carry on the whole or a Substantial Part of its business, save in connection with a Permitted Reorganisation, or the Issuer or the Guarantor stops or threatens to stop payment of, or is unable to, or admits inability to, pay, its debts (or any class of its debts) as they fall due, or is deemed unable to pay its debts pursuant to or for the purposes of any applicable law, or is adjudicated or found bankrupt or insolvent; or

(iii) (A) proceedings are initiated against the Issuer or the Guarantor under any applicable liquidation, insolvency, composition, reorganisation or other similar laws, or an application is made (or documents filed with a court) for the appointment of an administrative or other receiver, manager, administrator or other similar official (and such proceedings are not being actively contested in good faith by the Issuer or as the case may be, the Guarantor), or an administrative or other receiver, manager, administrator or other similar official is appointed, in relation to the Issuer or the Guarantor or an encumbrancer takes possession of the whole or a Substantial Part of the undertaking or assets of the Issuer or the Guarantor, or a distress, execution, attachment, sequestration or other process is levied, enforced upon, sued out or put in force against the whole or a Substantial Part of the undertaking or assets of the Issuer or the Guarantor and (B) in any case (other than the appointment of an administrator) is not discharged within 45 days; or

(iv) the Issuer or the Guarantor initiates or consents to judicial proceedings relating to itself under any applicable liquidation, insolvency, composition, reorganisation or other similar laws (including the obtaining of a moratorium) or makes a conveyance or assignment for the benefit of, or enters into any composition or other arrangement with, its creditors generally (or any class of its creditors) or, save in connection with a Permitted Reorganisation, any meeting is convened to consider a proposal for an arrangement or composition with its creditors generally (or any class of its creditors); or

(v) any event occurs which under the laws of the Cayman Islands or the United Arab Emirates or any Emirate therein or any other jurisdiction has an analogous effect to any of the events referred to in paragraphs (i) to (iv) above,

then the holder of any Note may give written notice to the Issuer and the Guarantor at the specified office of the Principal Paying Agent, effective upon the date of receipt thereof by the Principal Paying Agent, that such Note is due and payable, whereupon the same shall, subject to Condition 3, become forthwith due and payable at its Early Redemption Amount, together with accrued interest (if any) to the date of repayment without presentation, demand, protest or other notice of any kind.

(c) Breach of Obligations

To the extent permitted by applicable law and by these Conditions, a Noteholder may at its discretion institute such proceedings against the Issuer or the Guarantor as it may think fit to enforce any obligation, condition, undertaking or provision binding on the Issuer or the Guarantor under the Notes or the Guarantee, the Receipts or the Coupons, but the institution of such proceedings shall not have the effect that the Issuer or, as the case may be, the Guarantor shall be obliged to pay any sum or sums sooner than would otherwise have been payable by it.

(d) Other Remedies

No remedy against the Issuer or the Guarantor, other than the institution of the proceedings referred to in paragraph (a) or (c) above and the proving or claiming in any dissolution and liquidation of the Issuer or the Guarantor, shall be available to the Noteholders, the Receiptholders or the Couponholders whether for the recovering of amounts owing in respect of the Notes, the Receipts or the Coupons or in respect of any breach by the Issuer or the Guarantor of any other obligation, condition or provision binding on it under the Notes, the Receipts or the Coupons.

12. REPLACEMENT OF NOTES, RECEIPTS, COUPONS AND TALONS

Should any Note, Receipt, Coupon or Talon be lost, stolen, mutilated, defaced or destroyed, it may be replaced at the specified office of the Principal Paying Agent (in the case of Bearer Notes, Receipts or Coupons) or the Registrar (in the case of Registered Notes) upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer may reasonably require. Mutilated or defaced Notes, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

13. AGENTS

The names of the initial Agents and their initial specified offices are set out below.

The Issuer and the Guarantor are entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, **provided that**:

(a) there will at all times be a Principal Paying Agent and a Registrar;

(b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (in the case of Bearer Notes) and a Transfer Agent (in the case of Registered Notes) with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority;

(c) so long as any of the Registered Global Notes payable in a Specified Currency other than U.S. dollars are held through DTC or its nominee, there will at all times be an Exchange Agent with a specified office in New York City; and

(d) there will at all times be a Paying Agent in a Member State of the European Union that will not be obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any law implementing or complying with, or introduced in order to conform to, such Directive.

In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent having a specified office in New York City in the circumstances described in Condition 7.5. Any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the Noteholders in accordance with Condition 15.

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and the Guarantor and do not assume any obligation to, or relationship of agency or trust with, any Noteholders, Receiptholders or Couponholders. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor agent.

14. EXCHANGE OF TALONS

On and after the Interest Payment Date on which the final Coupon comprised in any Coupon sheet matures, the Talon (if any) forming part of such Coupon sheet may be surrendered at the specified office of any Paying Agent in exchange for a further Coupon sheet including (if such further Coupon sheet does not include Coupons to (and including) the final date for the payment of interest due in respect of the Note to which it appertains) a further Talon, subject to the provisions of Condition 10.

15. NOTICES

All notices regarding the Bearer Notes will be deemed to be validly given if published in a leading English language daily newspaper of general circulation in London. It is expected that any such publication in a newspaper will be made in the *Financial Times* in London and the *Luxemburger Wort*. The Issuer shall also ensure that notices are duly published in a manner which complies with the rules of any stock exchange or other relevant authority on which the Bearer Notes are for the time being listed or by which they have been admitted to trading. Any such notice will be deemed to have been given on the date of the first publication or, where required to be published in more than one newspaper, on the date of the first publication in all required newspapers.

All notices regarding the Registered Notes will be deemed to be validly given if sent by first class mail or (if posted to an address overseas) by airmail to the holders (or the first named of joint holders) at their respective addresses recorded in the Register and will be deemed to have been given on the fourth day after mailing and, in addition, for so long as any Registered Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules.

Until such time as any definitive Notes are issued, there may, so long as any Global Notes representing the Notes are held in their entirety on behalf of Euroclear and/or Clearstream, Luxembourg and/or DTC, be substituted for such publication in such newspaper(s) the delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or DTC for communication by them to the holders of the Notes and, in addition, for so long as any Notes are listed on a stock exchange or are admitted to trading by another relevant authority and the rules of that stock exchange or relevant authority so require, such notice will be published in a daily newspaper of general circulation in the place or places required by those rules. Any such notice shall be deemed to have been given to the holders of the Notes on the seventh day after the day on which the said notice was given to Euroclear and/or Clearstream, Luxembourg and/or DTC.

Notices to be given by any Noteholder shall be in writing and given by lodging the same, together (in the case of any Note in definitive form) with the relative Note or Notes, with the Principal Paying Agent (in the case of Bearer Notes) or the Registrar (in the case of Registered Notes). Whilst any of the Notes are represented by a Global Note, such notice may be given by any holder of a Note to the

Principal Paying Agent or the Registrar through Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, in such manner as the Principal Paying Agent, the Registrar and Euroclear and/or Clearstream, Luxembourg and/or DTC, as the case may be, may approve for this purpose.

16. MEETINGS OF NOTEHOLDERS AND MODIFICATION

The Agency Agreement contains provisions for convening meetings of the Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Notes, the Receipts, the Coupons or any of the provisions of the Agency Agreement. Such a meeting may be convened by the Issuer or the Guarantor and shall be convened by the Issuer if required in writing by Noteholders holding not less than five per cent. in nominal amount of the Notes for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing not less than a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting one or more persons being or representing Noteholders whatever the nominal amount of the Notes so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Notes, the Receipts or the Coupons (including modifying the date of maturity of the Notes or any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Notes, altering the currency of payment of the Notes, the Receipts or the Coupons or amending the Guarantee), the quorum shall be one or more persons holding or representing not less than three-quarters in nominal amount of the Notes for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Notes for the time being outstanding. An Extraordinary Resolution passed at any meeting of the Noteholders shall be binding on all the Noteholders, whether or not they are present at the meeting, and on all Receiptholders and Couponholders.

The Principal Paying Agent and the Issuer may agree, without the consent of the Noteholders, Receiptholders or Couponholders, to:

(a) any modification (except such modifications in respect of which an increased quorum is required as mentioned above) of the Notes, the Receipts, the Coupons, the Guarantee, the Deed of Covenant or the Agency Agreement which is not prejudicial to the interests of the Noteholders; or

(b) any modification of the Notes, the Receipts, the Coupons, the Guarantee, the Deed of Covenant or the Agency Agreement which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law. Any such modification shall be binding on the Noteholders, the Receiptholders and the Couponholders and any such modification shall be notified to the Noteholders in accordance with Condition 15 as soon as practicable thereafter.

17. FURTHER ISSUES

The Issuer shall be at liberty from time to time without the consent of the Noteholders, the Receiptholders or the Couponholders to create and issue further notes having terms and conditions the same as the Notes or the same in all respects save for the amount and date of the first payment of interest thereon and so that the same shall be consolidated and form a single Series with the outstanding Notes.

18. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

19. GOVERNING LAW AND SUBMISSION TO JURISDICTION

19.1 Governing law

The Agency Agreement, the Deed Poll, the Deed of Covenant, the Guarantee, the Notes, the Receipts and the Coupons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

19.2 Arbitration

Subject to Condition 19.3, any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Notes, the Receipts and/or the Coupons (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes, the Receipts and/or the Coupons) (a "**Dispute**") shall be referred to and finally resolved by arbitration in accordance with the Arbitration Rules (the "**Rules**") of the London Court of International Arbitration ("**LCIA**"), which Rules (as amended from time to time) are deemed to be incorporated by reference into this Condition 19.2. For these purposes:

(a) the place of arbitration shall be London, England;

(b) there shall be three arbitrators, each of whom shall be disinterested in the arbitration, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions;

(c) the language of the arbitration shall be English; and

(d) any requirement in the Rules to take account of the nationality of a person considered for appointment as an arbitrator shall be disapplied and a person shall be nominated or appointed as an arbitrator (including as Chairman) regardless of his nationality.

On receipt by the Issuer of a Request for Arbitration as defined in the Rules initiated by a Noteholder, Receiptholder or Couponholder (as the case may be), the Issuer shall send a copy of the Request for Arbitration to all Noteholders, Receiptholders or Couponholders, as applicable, (the "**Notification**") within 30 days of receipt. The arbitral proceedings shall be suspended until the earlier of the completion of the Notification process or 30 days following the receipt by the Issuer of a Request for Arbitration.

Any Noteholder, Receiptholder or Couponholder (as applicable) may, on receipt of such Notification, request to be joined with any other Noteholder, Receiptholder or Couponholder (as applicable) to that arbitration, by filing a written notice (a "**Joinder Notice**") with the relevant Noteholder, Receiptholder or Couponholder (as applicable) and the Issuer prior to disclosure of documents in that arbitration. Each Noteholder, Receiptholder or Couponholder hereby agrees to accept the joinder of any other Noteholder, Receiptholder or Couponholder (as applicable) where the interests of the Noteholders, Receiptholders or Couponholders (as applicable) are materially similar. Failure to file a Joinder Notice does not preclude any Noteholder, Receiptholder or Couponholder (as applicable) from bringing any action (whether arising from similar facts to those relevant to the arbitration in respect of which the Notification is provided or otherwise) in the future.

Any multi-party arbitration resulting from the joinder of any other Noteholder(s), Receiptholder(s) or Couponholder(s) (as applicable) will be formally settled in single arbitral proceedings.

In multi-party arbitration proceedings, the arbitral tribunal shall have all powers necessary to establish any supplementary procedural rules required or desirable in view of the multi-party nature of the proceedings.

In the event of arbitration proceedings where the interests of Noteholders, Receiptholders or Couponholders (as applicable) are sufficiently similar to permit those parties to be represented by a single counsel without generally accepted principles regarding conflicts of interest being infringed, such parties are obliged to act together and through one counsel only. In the event that there is some question as to whether the interests of some or all of the Noteholders, Receiptholders or Couponholders (as applicable) concerned are sufficiently similar to invoke the terms of this provision requiring joint representation, then that may be determined as a preliminary issue by the arbitral tribunal.

19.3 Court of law

Notwithstanding Condition 19.2 above, any Noteholder, Receiptholder or Couponholder may, in the alternative, and at its sole discretion, by notice in writing to the Issuer:

(a) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(b) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law. If any Noteholder, Receiptholder or Couponholder gives such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 19.4 and any arbitration commenced under Condition 19.2 in respect of that Dispute will be terminated. Each of the parties to the terminated arbitration will bear its own costs in relation thereto.

If any notice to terminate is given after service of any Request for Arbitration in respect of any Dispute, the relevant Noteholder, Receiptholder or Couponholder must also promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(i) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;

(ii) his entitlement to be paid his proper fees and disbursements; and

(iii) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

19.4 Submission to jurisdiction

In the event that a notice pursuant to Condition 19.3 is issued, the following provisions shall apply:

(a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and the Issuer submits to the exclusive jurisdiction of such courts;

(b) the Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(c) this Condition 19.4 is for the benefit of the Noteholders, the Receiptholders and the Couponholders only. As a result, and notwithstanding paragraph (a) above, any Noteholder, Receiptholder or Couponholder may take proceedings relating to a Dispute ("**Proceedings**") in any other courts with jurisdiction. To the extent allowed by law, any Noteholder, Receiptholder or Couponholder may take concurrent Proceedings in any number of jurisdictions.

19.5 Appointment of Process Agent

The Issuer appoints Abu Dhabi Commercial Bank (UK) Limited at its registered office at c/o Olswang, 90 High Holborn, London WC1V 6XX as its agent for service of process, and undertakes that, in the event of Abu Dhabi Commercial Bank (UK) Limited ceasing so to act or ceasing to be registered in England, it will appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes and notify the Noteholders, the Receiptholders and the Couponholders of such appointment in accordance with Condition 15. Nothing herein shall affect the right to serve proceedings in any other manner permitted by law.

19.6 Enforcement

The Issuer agrees that an arbitral award or judgment or order of an English or other court, in connection with a dispute arising out of or in connection with these Conditions, shall be binding on it and may be enforced against it in the courts of any competent jurisdiction. For the purposes of the foregoing, in respect of any proceedings arising out of or connected with the enforcement and/or execution of any award or judgment made against the Issuer, the Issuer hereby expressly submits to the jurisdiction of any court in which any such proceedings are brought.

19.7 Waiver of immunity

Abu Dhabi Commercial Bank P.J.S.C. hereby irrevocably and unconditionally waives with respect to the Notes, the Receipts and the Coupons any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order, judgment or award made or given in connection with any Proceedings or Disputes.

19.8 Other documents

Each of the Agency Agreement, the Guarantee, the Deed of Covenant and the Deed Poll contain governing law, arbitration, submission, process agent appointment, enforcement and waiver of immunity terms that are substantially similar to those set out above.

USE OF PROCEEDS

In the case of Notes issued by ADCB Finance Cayman, the net proceeds from each issue of Notes will be lent by ADCB Finance Cayman to ADCB and, along with the net proceeds resulting from the Notes issued by ADCB, will be applied by ADCB for its general corporate purposes, which include making a profit. In each case, if, in respect of any particular issue of Notes which are derivative securities for the purposes of Article 15 of the Commission Regulation No 809/2004 implementing the Prospectus Directive, there is a particular identified use of proceeds, this will be stated in the applicable Final Terms.

DESCRIPTION OF ADCB FINANCE CAYMAN

ADCB Finance Cayman was incorporated in the Cayman Islands as a limited liability company on 12 May 2008 in accordance with laws of the Cayman Islands, with registration number WK-210317. Its registered office is c/o Walkers Corporate Services Limited, Walker House, 87 Mary Street, George Town, Grand Cayman KY1-90051, Cayman Islands.

The authorised share capital of ADCB Finance Cayman is U.S.$50,000 divided into 5 million ordinary shares with a par value of U.S.$0.01 each. The issued share capital of the Issuer is 100 shares, all of which are fully paid and held by ADCB.

ADCB Finance Cayman has no subsidiaries.

The board of directors of ADCB Finance Cayman and their principal occupations are as follows:

Director	Principal Occupation at ADCB
Simon Copleston	General Counsel and Board Secretary
Kevin Taylor	Head of Treasury and Investments
Rajesh Raheja	Head of Funding and Debt Capital Markets

The business address of each member of the board of directors is P.O. Box 939, Abu Dhabi, UAE.

No member of the board of directors has any actual or potential conflict of interest between his duties to ADCB Finance Cayman and his private interests and/or other duties.

The objects of ADCB Finance Cayman, as referred to in its Memorandum of Association are unrestricted and ADCB Finance Cayman has full power and authority under its Memorandum of Association to carry out any object which is not prohibited by the laws of the Cayman Islands. Permitted objects would accordingly include the issue of the Notes, execution of the Programme Agreement, the Agency Agreement and the Deed of Covenant (the "**Transaction Documents**") to which it is a party and other agreements necessary for the performance of its obligations under the transactions contemplated thereby and undertaking activities pursuant to, or that are not inconsistent with, the terms and conditions of the Notes.

Pursuant to the terms of the Transaction Documents, ADCB Finance Cayman may issue securities other than the Notes or otherwise incur indebtedness. Accordingly, the Issuer is also able to issue notes under its RM350,000,000 Medium Term Note Programme ("**MYR Programme**"). On 2 September 2010, the Issuer issued RM750,000,000 5.2 per cent. Notes due 2015 under the MYR Programme.

ADCB Finance Cayman has not audited or published, and does not propose to audit or publish, any of its accounts since it is not required to do so under the laws of the Cayman Islands. ADCB Finance Cayman's non-audited financial statements are not published and are prepared only for internal purposes. ADCB Finance Cayman is, however, required to keep such books of account as are necessary to give a true and fair view of ADCB Finance Cayman's affairs and to explain its transactions.

ADCB Finance Cayman has no employees and is not expected to have any employees in the future.

DESCRIPTION OF ADCB

Overview

ADCB is one of the leading commercial banks in the UAE, offering a wide range of consumer and wholesale banking, investment banking, treasury and asset management products and services. As at 30 June 2010, ADCB was the third largest bank in the UAE and the second largest bank in Abu Dhabi in terms of total assets (AED 166.6 billion), loans and other advances (AED 118.8 billion) and customer deposits (AED 96.8 billion), representing about 10.8 per cent. of the UAE market in terms of total assets according to Central Bank statistical records. As at the date of this Base Prospectus, ADCB served more than 500,000 retail customers and more than 20,000 wholesale customers, primarily in its domestic UAE market.

Since its incorporation in July 1985 following the merger of three local Abu Dhabi banks, ADCB has grown rapidly to become one of the largest full-service commercial banks in the UAE. Since its incorporation, the Government has at all times held a controlling interest of at least 64.8 per cent. of the share capital of ADCB and it continues to hold, through the Council, 64.8 per cent. of ADCB's share capital as at the date of this Base Prospectus.

As at the date of this Base Prospectus, ADCB's authorised and issued share capital was AED 4.81 billion. ADCB's shares have a nominal value of AED 1 each. The Government currently holds 64.8 per cent. of ADCB's share capital through the Abu Dhabi Investment Council. ADCB's share capital is listed on ADX, the Abu Dhabi Securities Exchange.

In 2008, ADCB issued mandatorily convertible securities worth AED 4.8 billion to four strategic shareholders including the Government. The bonds carry a coupon of EIBOR plus 1.5 per cent. and are mandatorily convertible into new ordinary shares of ADCB on or before 24 April 2011. At issue the bonds carried a conversion price of AED 7.35. This price automatically adjusted to AED 6.11 as a result of ADCB's bonus issue in May 2008. When the mandatorily convertible securities are fully converted the Government's equity ownership of ADCB will reduce to 61.6 per cent. (of which 58.1 per cent. will be held by the Council and the balance by another investment institution wholly owned by the Government).

ADCB has three principal areas of business:

- the consumer banking group provides a broad range of conventional retail banking and wealth management products and services to individual customers (including high net worth individuals) located primarily in the UAE. The products and services offered include current and deposit accounts, personal and vehicle loans, mortgage lending, brokerage and credit and other card services and corresponding Islamic retail banking products and services.

- the wholesale banking group provides a broad range of corporate and investment banking products and services to large strategic clients (including government or government-related entities and regional blue-chip corporates), financial institutions, top-tier local corporates and local branches of multinational corporations and SMEs. The products and services offered include corporate lending, cash management, trade finance, Islamic finance, debt securities underwriting and distribution, corporate advisory and structuring services. The group also oversees and monitors ADCB's strategic investments and international operations (including its RHBC investment in Malaysia and ADCB's banking operations in India).

- the treasury and investments group provides commercial and proprietary treasury operations and manages ADCB's investment portfolio.

As at the date of this Base Prospectus, ADCB had 50 branches (including 4 pay offices) and around 237 ATMs in the UAE, with the majority in Abu Dhabi and Dubai, and two branches in India. It also offers services to individuals and corporate customers through its "ADCB@ctive" internet banking, phone and SMS banking systems and through one of the largest point-of-sale networks in the UAE. ADCB also provides a range of Sharia-compliant Islamic products and services under its "ADCB Meethaq" brand. In addition, since May 2008, ADCB has held a 25 per cent. interest in RHBC, which owns one of the leading Malaysian banks in terms of total assets and other Malaysian financial services businesses.

Strengths

ADCB believes that its businesses have the following strengths:

Well situated to benefit from resilience and growth of the UAE economy

ADCB believes that the resilience of its earnings and ability to grow its operating income since the middle of 2008 reflects the strengths of its core consumer and wholesale banking and treasury operations. It also reflects management's strong efforts to re-price ADCB's loan books and reduce costs since the start of the global financial crisis. Due to challenging market conditions in 2009 and 2010, ADCB reported a net loss of AED 305.9 million for the six-month period ended 30 June 2010 and a net loss of AED 512.8 million for the year ended 31 December 2009. Although net profits declined in first six months of 2010 over the same period in 2009, primarily as a result of impairment allowances on financial assets totalling AED 1,984.2 million, operating income continued to grow at a rate of 6.7 per cent. over the first six months of 2010 to AED 2,480.2 million.

In past years, ADCB has demonstrated an ability to capitalise on the strong growth rates in the region by substantially growing both its asset and liability portfolio, despite a highly competitive environment. While regional growth rates were significantly affected by the global financial crisis, ADCB has continued to grow. ADCB's loans and advances, net of loan loss provisions, increased by 1.9 per cent. to AED 118.8 billion as at 30 June 2010 from AED 116.6 billion at 31 December 2009. ADCB's loans and advances, net of loan loss provisions increased by 6.9 per cent. to AED 116.6 billion as at 31 December 2009, from AED 109.1 billion as at 31 December 2008. The increase was principally attributable to a growth in ADCB's loan portfolio, in particular in the services, personal loans against securities and real estate investment sectors. ADCB's loans and advances, net of loan loss provisions increased by 44.1 per cent. to AED 109.1 billion as at 31 December 2008, from AED 75.7 billion as at 31 December 2007. The increase was principally attributable to strong growth in ADCB's loan portfolio, in particular in the services, development and construction and personal loan sectors. Management believes that continued investment spending in the oil and gas industry, infrastructure and real estate sectors in the UAE and Abu Dhabi in particular will provide opportunities for all of ADCB's businesses, and particularly for ADCB's corporate customers, who are major suppliers to these investment programmes. ADCB therefore believes that it is well-positioned to be a significant indirect beneficiary of governmental domestic investment programmes. Management also believes that its consumer banking group is well-positioned to benefit from the growth and diversification of the UAE economy, as well as increased wealth across the UAE population. Although the UAE economy is currently facing a slowdown in line with other world economies, ADCB believes that the UAE is likely to recover promptly as the global macroeconomic environment improves and that ADCB is well-situated to benefit from such recovery.

Supportive principal shareholder

As at the date of this Base Prospectus, 64.8 per cent. of the issued and outstanding ordinary shares of ADCB were held by the Government through the Council. The Government was instrumental in the founding of ADCB through a three-way merger of local Abu Dhabi banks in 1985, and it has continued to support ADCB since that date. In particular, many Government-controlled entities regularly engage ADCB in new business opportunities and have remained long-standing clients of ADCB. Furthermore, in common with other regional governments, the Government provided financial support to its local banks, including ADCB, during the global financial crisis. The Government subscribed for AED 4 billion of Tier I Capital Notes issued by ADCB in the first quarter of 2009. This support helped ADCB to maintain liquidity and achieve a high capital adequacy ratio, well above the Central Bank guidelines, during the most difficult period of the global financial crisis. The majority ownership of ADCB and financial and other support by the Government have helped to stabilise ADCB's performance in turbulent economic periods and to enhance customer and market confidence in ADCB. Although there can be no assurance that the Government will continue to support ADCB, management believes that ADCB's relationship with the Government is unlikely to change in the foreseeable future.

Capital base and liquidity

As at 30 June 2010, ADCB had a total capital adequacy ratio under Basel II of 15.86 per cent., consisting of a Tier I ratio of 11.46 per cent. and a Tier II ratio of 4.4 per cent. ADCB has maintained a strong liquidity position with a loans to stable resources ratio of less than 100 per cent. during the past three years. This ratio has been bolstered by the issuances of AED 4.8 billion of mandatory convertible securities by ADCB in 2008 and AED 4 billion of Tier I Capital Notes by ADCB in March

2009, as well as by the conversion of AED 6.6. billion of medium term deposits provided by the UAE federal government into Tier II qualifying loans in March 2009. In addition, ADCB had cash on hand and short-term interbank placements of AED 22.1 billion as at 30 June 2010 and has repaid AED 1,983 million of its short and medium term borrowings since 30 June 2010.

Strong domestic franchise with a well known and trusted brand

In the UAE, ADCB is one of the leading commercial banks with a broad portfolio of consumer and wholesale products, an extensive distribution network and well-established relationships with its client base. With more than 500,000 retail customers and over 20,000 wholesale customers, ADCB has one of the largest customer bases in Abu Dhabi and the UAE and maintains one of the largest domestic distribution networks. This distribution network offers significant opportunities to attract additional clients and expand its range of products and services to existing clients. As at the date of this Base Prospectus, ADCB has 50 branches and around 237 ATMs throughout the UAE with a suite of alternate banking channels, including Internet-based "ADCB@ctive", mobile banking channels and point-of-sales. As of 30 June 2010, ADCB had deposits of AED 96.8 billion, which represented a market share of 9.8 per cent. of total UAE bank deposits and a loan and other advances portfolio of AED 118.8 billion, which represented 11.6 per cent. of total loans of all UAE banks, according to UAE Banking Indicators Report from the Central Bank.

ADCB's strong position in consumer and wholesale banking enables ADCB to benefit from economies of scale and provides a strong platform for sustained profitability in the UAE banking market. ADCB believes that it has established itself as a well-recognised brand throughout the UAE through its focus on customer service and creation of innovative products and services. Management believes that ADCB's market position and strong brand recognition reflect ADCB's focus on high-quality customer service, its established track record in both consumer and wholesale banking, its targeted marketing to consumer, SME, large corporate and strategic client groups and its involvement in the UAE's most prominent infrastructure and other development projects.

Experienced management team with proven track record in the banking industry

ADCB's senior management team has extensive experience in the financial services sector in the UAE and elsewhere. ADCB's Chief Executive Officer, Mr. Ala'a Eraiqat, has over twenty years of experience in the banking sector, including positions at Citibank and Standard Chartered Bank, and six years with ADCB, 18 months of which was as Deputy CEO. During this time, Mr. Eraiqat has overseen ADCB's rapid growth in consumer and business banking and the establishment of ADCB's Islamic banking operations. ADCB's Chief Financial Officer, Mr. Deepak Khullar, has over 25 years of banking and finance experience. His last position before joining ADCB was as CFO of Standard Chartered First Bank, one of the largest commercial banks in South Korea. ADCB's Chief Risk Officer, Mr. Kishore Rao, has over 25 years of banking and risk management experience, including most recently as Chief Credit and Risk Officer of Arab Banking Corporation. The heads of ADCB's wholesale, consumer, treasury and investment and credit groups have extensive experience in the finance and banking sector, with institutions such as Barclays Bank, Citibank, Standard Chartered Bank and Alico. ADCB's strategy (See "– *Strategy*") is supported by the senior management team's broad expertise in the region, proven record for implementing industry-leading initiatives, and by its focus on best practices and customer service. ADCB believes that the experience of its senior management team is a key strength as it seeks to continue to improve its operating performance and implement its strategy.

Expertise in designing banking products to meet customers' needs

ADCB currently offers a range of banking products and services to its clients and has the ability to tailor each product to fit the banking needs of individual clients, especially its strategic, large corporate and high net worth individual clients. ADCB's wholesale banking group provides customised cash management, trade finance (including structured trade finance) and investment banking solutions to its strategic, large corporate and SME clients. In addition, through its joint venture with Macquarie Bank, ADCB provides infrastructure advisory and infrastructure-related investment management services. In addition, ADCB offers individualised banking services for high net worth individuals. Since 2005, ADCB has focused on affluent retail clients and high net worth individual clients through its Privilege Club, Excellency and other programmes. ADCB also offers "TouchPoints", a rewards programme whereby customers earn points redeemable for goods and services for virtually all transactions carried out with ADCB, which Management believes is unique in the region. ADCB has also formed an alliance with Etihad Airways, the national airline of the UAE, to offer co-branded credit cards whereby the customers are awarded Etihad miles (under the Etihad Guest Programme) for their spending. ADCB believes that the availability of these custom-tailored products and services helps to market ADCB's other products and services effectively and to differentiate ADCB's products from those of its competitors.

Strategy

ADCB's strategy for the period 2011 to 2013 is based on five main themes:

- *Growth through a UAE-centric approach*: ADCB aims to capitalise on the strengths of its consumer and wholesale banking franchises and strong brand in the UAE and enhance its position as a leading full-service commercial bank in the UAE. Rather than expanding into foreign markets, ADCB's core focus for growth resides primarily within the core segments of corporate, wholesale banking and consumer banking in the UAE. The main strategy is to defend, maintain and consolidate ADCB's business in the UAE. ADCB intends to continue to work closely and strengthen its relationship with strategic and government clients in the UAE. In furtherance of this purpose, ADCB has acquired the retail and SME banking businesses of RBS in the UAE which added approximately 250,000 new customers, three new branches and two new customer service centres along with additional ATMs and operations processing and modern call centre facilities based in Dubai. The acquisition provided ADCB with an opportunity to add significant scale and momentum in the strategically important consumer banking business.

- *Stability through growth in customer term liabilities*: ADCB aims to improve its loan to deposit ratio throughout 2010 and 2011 by building its customer liability base with longer term deposits. ADCB's loans to deposits ratio improved from 135 per cent. to 123 per cent. in the first six months of 2010. ADCB has new customer value propositions in place to help deliver further resilience in this space. ADCB views Government investment as a key area for growth in 2011. To capitalise on this, ADCB has begun the development of a government banking and strategic client value proposition called Reyadah, which is expected to be launched in November 2010. Reyadah is the first venture that includes services from all groups of ADCB including the consumer banking group, the wholesale banking group and the treasury and investments group.

- *Build a culture of service excellence and efficiency*: ADCB continues to invest in new IT infrastructure and systems. ADCB's IT systems have been developed based largely on commercially available systems with very limited "in-house" software. Accordingly, management believes that its IT platform is easily scalable to accommodate growth in ADCB's consumer and wholesale banking businesses. ADCB's IT systems were also designed to be flexible so that they can service the different types of banking products that ADCB offers. ADCB has also made significant investments in developing disaster recovery and business continuity sites and processes. ADCB is also aiming to maximise internal controls through compliance and audit functions. ADCB now occupies a Tier 4 data centre and has made major investments in IT Systems for customer relationship management, cash management, treasury and trade finance. ADCB intends to continue to upgrade its IT and operational platforms in order to maximise shared resources and implement its cross-selling and cost reduction initiatives.

- *Improve risk management*: ADCB has sought to recruit "best in market" risk management teams and continues to build upon its standards of risk management, corporate governance and transparency. ADCB intends to manage down its concentration risk and has implemented a more robust risk framework including investment in upgrading its risk systems and people capability to handle such risks. Risk management is also being carried out through ongoing proactive remedial management and tightening of credit criteria.

- *Success through staff*: ADCB recognises the contribution of its staff members to its long term profitability and success. To this end, ADCB intends to retain its key staff members, to periodically review their compensation and incentives and reward them, aligned to their performance. ADCB also intends to attract talent to key new roles within the organisation. One of the major challenges facing ADCB is the successful integration of the RBS operation into ADCB's operations. ADCB intends to continue to maintain market-attractiveness through its compensation structure, to continue to invest in its people and to build aspiring career paths for staff.

History and corporate structure

ADCB was incorporated in 1985 following the merger of Khalij Commercial Bank, Emirates Commercial Bank and Federal Commercial Bank. The merger was effected pursuant to a resolution of the Abu Dhabi Executive Council.

Following a strategic review conducted in 2003, ADCB undertook a bank-wide reorganisation programme designed to create a competitive, contemporary and full-service bank offering a wide range of products and services to its customers and that was capable of sustainable growth in profitability. The reorganisation strategy was implemented in 2003 and 2004. A new management team was also appointed during that period.

In 2005, ADCB formed two joint ventures with Australia's Macquarie Bank. One joint venture focuses on infrastructure advisory services and infrastructure funds management which leverages the specialised infrastructure advisory and infrastructure funds management capabilities of Macquarie Bank. The other joint venture focused on treasury products. On 1 April 2010, ADCB and Macquarie Bank announced the termination of their joint venture related to treasury products, following successful expansion of ADCB's treasury product delivery capabilities. The joint venture related to the infrastructure advisory services and infrastructure funds management remains operational.

In 2006, ADCB engaged McKinsey & Company to assist with a review of ADCB's products and services. This review culminated in the "ADCB Fast Forward" programme, a restructuring and overhaul of ADCB's products, which was completed in late 2009. The "Fast Forward" strategic programme aimed to (i) increase investments to further expand and strengthen ADCB's business in its core consumer and wholesale businesses; (ii) develop ADCB's Islamic banking capability; (iii) expand its business into a market or markets similar to the UAE to leverage its core assets and capabilities; (iv) invest in both its operational and technical infrastructure to create a platform for sustainable growth and efficiency; and (v) continue to focus on human capital development. ADCB achieved the first milestone of its strategy of expanding into similar markets by acquiring a 25 per cent. stake in RHBC in May 2008. RHBC provides a broad range of Malaysian financial products and services through its wholly-owned subsidiaries RHB Bank Bhd (the fourth largest Malaysian bank in terms of total assets as at 30 June 2010) and RHB Investment Bank Bhd, and its 79.5 per cent. stake in RHB Insurance Bhd. This acquisition gave ADCB exposure to the developing markets of Malaysia and South East Asia.

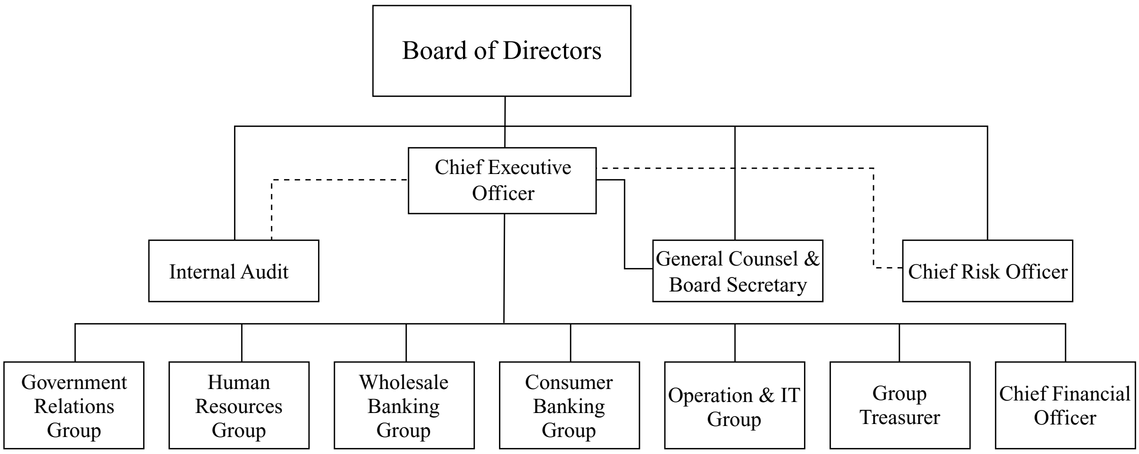
After the aims of the "Fast Forward" strategic programme were achieved, ADCB developed the strategy for the period 2011-2013 which targets (i) growth through a UAE-centric approach; (ii) stability through growth in customer term liabilities; (iii) building a culture of service excellence and efficiency; (iv) efficient management of risk; and (v) success through staff.

In April 2008, ADCB issued AED 4.8 billion worth of mandatory convertible securities to four strategic shareholders, including the Council. The securities carry a coupon of EIBOR plus 1.5 per cent. and are mandatorily convertible into new ordinary shares of ADCB on or before 24 April 2011. At the time of their issuance, the securities carried a conversion price of AED 7.35. This price automatically adjusted to AED 6.11 as a result of ADCB's issuance of bonus shares in May 2008. When the mandatory convertible securities are fully converted, the Government's equity ownership of ADCB will reduce to 61.6 per cent. (of which 58.1 per cent. will be held by the Council and the balance by aother investment institution wholly owned by the Government).

In 2009, in common with other local UAE banks, ADCB accepted Tier II capital from the UAE Ministry of Finance in the sum of AED 6.6 billion. As a condition of acceptance of this capital, local banks were required to grant the Ministry of Finance a right to convert the Tier II capital into ordinary shares. This right is exercisable in the event that ADCB's Tier I capital falls below the regulatory minimum set by the UAE Central Bank from time to time.

Organisation Chart

The following chart sets out the organisation structure of ADCB as at the date of this Base Prospectus.



Currently, ADCB has the following shareholdings in the following material subsidiaries and associates:

Company	Ownership (%)	Place of Incorporation	Book Value (U.S.$ millions) as at 31 December 2009
Abu Dhabi Commercial Properties LLC	100%	UAE	21.05
Abu Dhabi Risk & Treasury Solutions LLC*	51%	UAE	34.80
Al Dhabi Brokerage Services LLC	100%	UAE	23.38
ADCB Holdings (Labuan) Limited	100%	Malaysia	1.92
ADCB Holdings (Malaysia) Sdn Bhd	100%	Malaysia	(140.04)
Abu Dhabi Commercial Islamic Finance PrvtJSC	100%	UAE	139.29
Abu Dhabi Commercial Investment Services LLC	100%	UAE	40.84
RHB Capital Berhad**	25%	Malaysia	1,218.29

* ADCB holds a 51 per cent. economic interest in this company until 2011 and a 75 per cent. economic interest from 2012 until 2015.

** RHB Capital Berhad is a material associate of ADCB. ADCB indirectly holds 25 per cent. of RHB Capital Berhad's shares through its wholly owned subsidiaries. Book value represents the carrying value of the investment in associate as set out in the accounts of ADCB.

Recent developments

Acquisition of RBS

ADCB has recently acquired certain consumer and SME banking businesses of RBS in the United Arab Emirates. This was the first acquisition of an international bank's banking businesses in the UAE by a local bank. The acquisition adds approximately 250,000 new customers, three new branches and two new customer service centres along with additional ATMs and operations processing and modern call centre facilities based in Dubai and provides ADCB with an opportunity to add significant scale and momentum in the strategically important consumer banking business.

Dubai World exposure

Dubai World is an investment company, substantially owned by the Government of Dubai, which owns a portfolio of businesses and projects across a wide range of industries. In November 2009, Dubai World asked its creditors for a standstill on debt repayments to allow an orderly restructuring of its and certain of its subsidiaries' outstanding debt of approximately U.S.$23.5 billion.

ADCB has an exposure of approximately AED 6,810 million to those Dubai World group entities which are subject to the restructuring. Under the broadly agreed terms of the restructuring, if such restructuring is implemented, Dubai World's financial indebtedness will comprise two tranches with five and eight year maturities respectively. The Government of Dubai has agreed to convert a percentage of debt and claims into equity.

While all lenders' principal exposures will be maintained in accordance with the proposed restructuring terms, the new interest rates applicable will be lower than the rate applicable prior to the restructuring. In this context, the current proposal would require an impairment charge for ADCB of AED 1,035.5 million or 15.2 per cent. of its outstanding exposure to the Dubai World group. In anticipation of the successful completion of this restructuring, this amount was included in ADCB's half yearly accounts ending 30 June 2010.

Saad Group and Algosaibi Group exposure

The Saad Group and the Algosaibi Group, two prominent Saudi Arabian family-owned groups, announced in March 2009 that they were experiencing serious financial difficulties. The combined debt of the two groups is estimated to total over U.S.$10 billion and is estimated to be owed to more than 120 regional and international banks, including ADCB. As a result of the groups' weakened financial conditions (i) rating agencies, including S&P and Moody's, withdrew their ratings from the Saad Group and the Algosaibi Group during 2009; (ii) the Saudi Arabian Monetary Authority ordered all Saudi Arabian banks to freeze the accounts of Mr. Maan Al Sanea, who controls the Saad Group and the Algosaibi partners; (iii) the Saad Group's Bahrain-based AWAL Bank and the Algosaibi Group's Bahrain-based The International Banking Corporation entered into administration; and (iv) numerous legal proceedings were commenced, which included the seizure and attachment of certain assets of the two groups and their principals to protect creditors' rights. The Algosaibi Group commenced one such proceeding by filing a claim against Mr. Maan Al Sanea and the Saad Group in the Cayman Islands. In addition, a group of international banks placed Saad Investment Company Limited, a holding company based in the Cayman Islands owned by Mr. Maan Al Sanea, into liquidation during the second quarter of 2009. ADCB also commenced legal proceedings in August 2009 against the Saad Group and the Algosaibi Group in several jurisdictions, with the aim of recovering additional assets and thereby further reducing its exposures.

In July 2010, ADCB obtained judgment from the United Kingdom courts in a sum of approximately U.S.$33 million plus interest, in relation to its case against Saad Contracting & Trading. Enforcement of this judgment, and other substantive debt claims against the Saad Group and the Algosaibi Group in UAE and Saudi Arabia, is ongoing.

As at 30 June 2010, ADCB had an aggregate exposure of AED 1,208.4 million to the Saad Group and AED 639.6 million to the Algosaibi Group.

As at 30 June 2010, allowances related to the combined Saad Group and the Algosaibi Group exposures have been provided in the amount of AED 1,155.0 million. ADCB's future impairment allowances on these exposures will be in line with its provisioning policies as required by IFRS taking into consideration any guidance from relevant regulators.

Restructuring of CDS exposure

ADCB is in the process of restructuring the largest of its CDS exposures, which relates to a Cayman Island special purpose vehicle with a collateral pool comprised largely of collateralised debt obligations backed by a range of asset types from commercial property to financial institution Tier I debt. If this transaction is not successfully restructured, ADCB may be required to make further provisions against this exposure or to commence litigation for recovery or both.

Consumer banking group

The consumer banking group provides a range of conventional and Sharia-compliant products and services to retail consumers primarily located in the UAE. The group offers products including deposit and transactional accounts, personal and vehicle loans, mortgages, credit cards, third-party bancassurance products, third-party investment products, ADCB investment products, wealth management services and brokerage services. These products are tactically priced according to the customer's overall relationship with ADCB and risk profile and are almost all linked to ADCB's unique "TouchPoints" programme, a bank-wide loyalty programme that enables customers to earn points redeemable for goods and services (for example, airline mileage points, mall vouchers and jewellery) for virtually all transactions carried out with ADCB as opposed to only credit card transactions as with other competitors in the region. ADCB also offers co-branded credit cards in partnership with Etihad Airways, the national airline of the UAE, whereby customers are awarded Etihad miles for their purchases.

The group comprises three separate divisions including (i) the retail banking division, which serves the mass market with a focus on affluent individuals; (ii) the wealth management division, which was established in 2004 to serve high net worth individuals that carry a minimum balance of AED 500,000 with ADCB; and (iii) the Islamic banking division, which was established in September 2008 to provide ADCB's Sharia-compliant products and services such as Murabaha, Mudaraba and Ijarah to both retail and wholesale customers. As at the date of this Base Prospectus, the consumer banking group had more than 900 employees and over 500,000 customers, almost all of which were based in the UAE.

In response to current market conditions and in order to continue to grow its consumer banking business, ADCB has focused on controlling and reducing costs (generally through means other than reductions in personnel), and has tightened its credit standards. The ADCB consumer franchise has remained largely unaffected by the crisis due to sound risk management policies and tactical and operational flexibility.

Consumer banking divisions

Retail banking

The retail banking division offers the consumer banking group's products and services to mass market customers with a focus on affluent individuals. In addition to these products and services, mass market customers fulfilling certain criteria are entitled to enroll in the Privilege Club. ADCB has also formed alliances with Etihad Airways, the national airline of the UAE, and LuLu Hypermarkets, the largest supermarket chain in the UAE, to offer co-branded credit cards.

Wealth management

The wealth management division offers the consumer banking group's products and services to customers carrying a minimum aggregate balance across accounts of at least AED 500,000. Such customers are enrolled in ADCB's Excellency Wealth Management programme and receive the most extensive services offered by ADCB, including the Excellency Premium Debit Card and the Excellency Platinum Credit Card, as well as significant discounts on many services such as discounts with merchant alliance partners, guaranteed annual vacation (linked to annual spending) and complementary Priority Pass membership, which provides access to a large number of airport VIP lounges.

Islamic banking

The Islamic banking division is managed under the "ADCB Meethaq" brand, which offers Sharia-compliant products and services to both consumer and corporate customers such as corporate lending, retail financing, corporate deposits, retail deposits and open architecture investments (an investment platform that makes available to investors a broad array of third party managers and strategies with no bias to the manager or strategy chosen to meet investor objectives). The division forms a part of ADCB's Islamic banking platform in conjunction with ADCB's wholly-owned Islamic banking subsidiary, Abu Dhabi Commercial Islamic Finance P.S.C. For further information on ADCB's Islamic banking, see "*– Islamic banking*".

Products and services

ADCB's retail banking, wealth management and Islamic banking divisions offer a range of products and services to individuals, almost all of which are linked to ADCB's unique "TouchPoints" bank-wide loyalty programme. The principal products and services offered by these divisions include:

- *Deposit and transactional accounts:* The consumer banking group offers customers interest and non-interest bearing current accounts (which can be opened in a variety of currencies), savings accounts, term deposit accounts and call accounts of different maturities and yields. Customers can access their accounts by using their debit cards at ADCB's network of around 237 ATMs and 48 specialised cheque and cash deposit machines, as well as through SMS, telephone and internet banking channels. As at 30 June 2010 and as at 31 December 2009, ADCB held AED 21,692 million and AED 20,246 million, respectively, of consumer deposits, representing approximately 22.4 per cent. and 23.4 per cent. respectively, of ADCB's total deposits during such periods.

- *Personal loans:* Personal loans, including Smart Loans (which are short-term, high-interest bearing personal loans against the borrower's post-dated cheque) for amounts up to AED 250,000, are extended for a variety of purposes and are denominated in UAE dirhams. Decisions to extend or refuse loans are generally made within three days of application for retail banking customers and wealth management banking customers. The average term of a personal loan is approximately 6 years for retail banking customers and 10 years for wealth management banking customers. Retail customers are the key segment for personal loans, representing 99.7 per cent. of ADCB's personal loans outstanding. None of such loans are structured with variable interest rates. As at 30 June 2010 and as at 31 December 2009, ADCB had 63,149 and 65,506 personal loans outstanding, respectively, totaling AED 7,335 million and AED 6,898 million, respectively, and representing approximately 6.17 per cent. and 5.9 per cent., respectively of ADCB's total loans during such periods.

- *Vehicle loans:* Vehicle loans are extended for the purchase of cars and boats and are generally denominated in UAE dirhams. The process by which vehicle loans are extended, and the terms governing such loans, are substantially similar to those with respect to personal loans. In order to receive a vehicle loan, the consumer must pledge the vehicle to be purchased as security interest to ADCB. ADCB has established relationships with partners such as Al Futtaim GE Money (a joint venture between GE Money and the Al Futtaim Group) in order to provide loan products that allow customers to secure loans directly with ADCB without having to involve a dealership. This eliminates fees and commissions payable in respect of newly generated vehicle loans to its customers. The average term of a vehicle loan is 4.3 years for mass market retail banking customers and 3.8 years for HNWIs. As at 30 June 2010 and as at 31 December 2009, ADCB had approximately 35,157 and 33,981, respectively, vehicle loans outstanding, totaling AED 1,850 million and AED 1,882 million, respectively, and representing approximately 1.6 per cent. and 1.67 per cent., respectively of ADCB's total loans during such periods.

- *Mortgages:* The consumer banking group provides mortgages for the purchase of properties and off-plan properties. Although it has significantly slowed recently due to the global financial crisis, the residential mortgage market in the UAE had grown significantly in recent years due to the launch of landmark developments and the opening of certain free zones in the UAE to ownership by non-UAE nationals. For mass market retail banking customers, the maximum loan to value ("**LTV**") ratio allowed for properties purchased by salaried employees is 85 per cent., while the maximum LTV allowed for non-salaried individuals is 70 per cent. For high net worth customers, the maximum LTV ratio allowed for properties purchased is 85 per cent. The average term of a mortgage is approximately 20 years for retail banking customers and 18.75 years for wealth management banking customers. All mortgages are structured with variable interest rates. Property insurance is typically bundled with mortgages. As at 30 June 2010 and as at 31 December 2009, ADCB had approximately 3,458 and 3,396 mortgages outstanding, respectively, totaling AED 5,588 million and AED 5,295 million, respectively, and representing approximately 4.7 per cent. and 4.5 per cent., respectively of ADCB's total loans during such periods.

- *Credit cards:* The consumer banking group offers credit cards by Visa and MasterCard, as well as co-branded credit cards with LuLu Hypermarkets, the largest supermarket chain in the UAE and with Etihad Airways, the national airline of the UAE. As at 30 June 2010 and as at 31 December 2009, ADCB had issued 156,580 and 150,465 credit cards, respectively, with net receivables totalling AED 1,216 million and AED 1,221 million, respectively, representing approximately 1.02 per cent. and 1.04 per cent., respectively, of ADCB's total loans and advances. As at 30 June 2010, ADCB had issued approximately 8.02 per cent. of all Visa and MasterCard credit cards issued in the UAE, compared to 7.55 per cent. as of 31 December 2009.

- *Third party bancassurance products:* The consumer banking group offers comprehensive insurance solutions and services through partnerships with renowned international and local providers including Zurich International Life, American Life Insurance Company, the ACE Life, Dubai Islamic Insurance & Reinsurance Co. and Oman Insurance Co.. These services consist of protection plans (including whole of life cover, term insurance, accidental death and disability benefits and critical illness cover), unit linked and guaranteed savings vehicles, auto insurance, and in-patient health insurance for expatriate workers. For promoting and distributing these products ADCB receives a commission representing a percentage of insurance premiums paid during the first year of insurance cover. Insurance policies are underwritten and administered by ADCB's partner insurance companies. In the six months ended 30 June 2010 and the year ended 31 December 2009, ADCB received commissions totaling AED 9.2 million and AED 32 million, respectively, for its sales of third party bancassurance products.

- *Third party investment products:* The consumer banking group offers over 1,400 third party investment products, including a range of mutual funds, hedge funds, fixed-income securities and structured products through ADCB's relationships with over 30 partners, including Fidelity, Franklin Templeton, UBS, HSBC Financial Services, Deutsche Bank, Morgan Stanley and Allfunds Bank, among others. ADCB generally receives a commission representing a percentage of the total amount invested. In the six months ended 30 June 2010 and the year ended 31 December 2009, ADCB received commissions totaling AED 6.4 million and AED 5.7 million, respectively, for its sales of third party investment products.

- *ADCB investment products:* The consumer banking group offers funds managed by ADCB, including open-end funds such as the Al Nokhitha Fund (which invests in UAE securities), the ADCB MSCI UAE Index Fund and the ADCB MSCI Arabian Markets Fund. In August 2009, ADCB also launched ADCB Funds FCP, a Luxembourg-domiciled specialised investment fund, which allows institutional investors in Western Europe to invest indirectly into ADCB's existing funds. ADCB generally receives a commission representing a percentage of the total amount invested, as well as management and performance fees. As at 30 June 2010 and 31 December 2009, ADCB's investment products collectively had net assets under management of approximately AED 490.3 million and AED 538.8 million, respectively and generated commission of AED 4.4 million and AED 9.0 million.

- *Brokerage and research services:* The consumer banking group offers execution services for equity and fixed income securities on behalf of its individual and institutional clients. ADCB has access to the Abu Dhabi Stock Exchange and Dubai Stock Exchange through pre-funded brokerage accounts at its wholly owned brokerage services subsidiary, Al Dhabi Brokerage Services LLC. ADCB uses this company as its brokerage platform in the UAE and uses external brokerage firms for trades outside the UAE. ADCB also offers investment analysis services and provides market performance reports, portfolio advice and stock guides. In the six months ended 30 June 2010 and the year ended 31 December 2009, ADCB traded securities in excess of AED 3,057 million and AED 13,899 million, respectively, and received brokerage commissions totaling AED 6.6 million and AED 20.4 million, respectively.

Sales, service and distribution channels

In order to both maintain long-term customer relationships and further expand its customer base, ADCB maintains an extensive network of conventional distribution channels, including retail branches (including kiosks and pay offices) in the UAE, principally in Abu Dhabi and Dubai. ADCB also services its clients through a network of alternative distribution channels, including ATMs, cheque and cash deposit machines, call centres, Internet banking, phone banking, SMS banking and an extensive point-of sale network.

Conventional distribution channels

As at the date of this Base Prospectus, ADCB maintained the following conventional distribution channels:

- *50 branches (not including kiosks)*, located throughout all seven emirates of the UAE (with the majority concentrated in Abu Dhabi and Dubai) and two branches in India. Each of ADCB's branches in the UAE and India contains a teller and bank operations unit and a sales and service unit (which are ISO 1001 certified). These branches are organised into eight regional clusters for management purposes, although the head of each branch office has his own authority and reports directly to the head office;

- *Around 237 ATMs*, located throughout the UAE (with the majority concentrated in Abu Dhabi and Dubai);

- *Six Excellency Centres*, located in Abu Dhabi, Al Ain, Dubai and Sharjah to serve HNWI customers; and

- *Lulu Sales Counters*, which are in-store sales counters located in the Lulu hypermarkets throughout the UAE.

Furthermore, ADCB's branches, ATMs, Excellency Centres and LuLu sales counters are complemented by various collaborations with suppliers and brokers, including mortgage brokers, consumer finance companies and automobile dealers.

As at 30 June 2010, ADCB had 135 full-time employees who act as relationship managers for high net worth clients and affluent clients, such as members of the Excellency programme and the Privilege Club. As at 30 June 2010, ADCB also had approximately 810 exclusive outsourced sales agents and 158 telemarketing sales agents, who target retail customers in the mass market.

Alternative distribution channels

ADCB also maintains the following alternative distribution channels:

- *ADCB@ctive*, ADCB's Internet banking system. ADCB@ctive achieved a customer satisfaction level of 95 per cent. in 2008 according to ADCB's annual customer satisfaction survey (as compared to 91 per cent. in 2007). As at 30 June 2010, 105,453 customers had registered with ADCB@ctive;

- *Mobile banking*, ADCB's mobile banking system. ADCB customers can conduct certain basic banking transactions such as account transfer, bill payments and enquiries. As at 30 June 2010, 211,742 customers had registered for mobile banking;

- *SMS alerts*, provides SMS alert services and allows ADCB customers to request information on transactions conducted through ADCB's mobile banking system. As at 30 June 2010, 211,742 customers had registered for SMS banking;

- *Contact Centres*, call centres designed to assist customers with questions concerning consumer banking products and services. ADCB's contact centres are ISO 9001 certified;

- *Interact*, call centres designed to address customer complaints. In the six months ended 30 June 2010, Interact resolved 93.5%. of complaints received within 72 hours; and

- *Point-of-sale network*, which allows ADCB customers to use their banking card to pay for goods and services at retail outlets and service centres throughout the UAE.

ADCB's acquisition of certain consumer and SME banking businesses of RBS in the UAE

ADCB has recently acquired certain consumer and SME banking businesses of RBS in the UAE.

This was the first acquisition of an international bank's retail banking business in the UAE by a local bank. This acquisition provides ADCB with an opportunity to add significant scale and momentum in the strategically important consumer banking business and to leverage RBS's established local retail banking presence by adding approximately 250,000 new customers, three new branches and two new customer service centres along with additional ATMs and modern operations processing and call centre facilities based in Dubai. The acquisition also significantly enhances ADCB's market share in the credit card business.

Competition for consumer banking group

The consumer banking market in the UAE is highly fragmented and includes a range of local and international banks. The primary competitors to ADCB's consumer banking business are Emirates National Bank of Dubai PJSC, Mashreq Bank PJSC, National Bank of Abu Dhabi PJSC and HSBC Middle East Limited. ADCB attempts to distinguish itself from these local and international banks by providing a full range of products and services, superior customer services, a customer-centred approach, alternate and effective distribution channels and "TouchPoints". In Islamic consumer banking, ADCB's principal competitors include Dubai Islamic Bank and Abu Dhabi Islamic Bank. Similarly, ADCB attempts to distinguish itself from these local Islamic banks by drawing on its full-service conventional banking experience in order to provide a more extensive range of Islamic banking products and services than can typically be offered by such local banks.

Awards

ADCB's consumer banking division has been recognised as one of the leading providers of retail banking products and services in the UAE. In 2007, ADCB received the "Best Retail Bank in the UAE" and the "Best Customer Loyalty Program" awards from the Asian Banker Journal. In 2008, ADCB received the "Best Retail Bank in the UAE and the Gulf States" award, also from the Asian Banker Journal. In 2009, ADCB received the "Best Premium Banking Service Award" for its Privilege banking services from Banker Middle East. In 2010, ADCB received the "Best Consumer Internet Bank 2010 – country award for UAE" from Global Finance Magazine as a part of the "Global Finance 2010 World's Best Internet Banks".

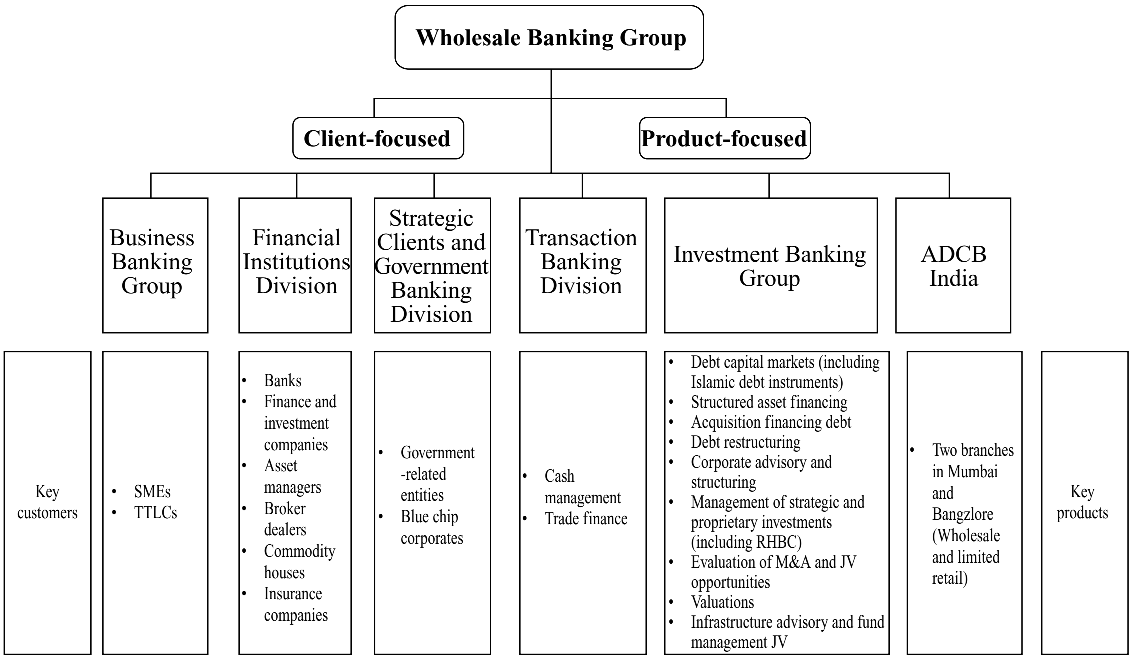
Wholesale banking group

The wholesale banking group provides corporate lending and working capital finance, transactional banking, capital markets and advisory services to SMEs, local, regional and multinational corporate entities, government and government-related entities and financial institutions, primarily in the UAE.

The group's client-focused divisions include the (i) business banking division, which focuses on SMEs emerging local corporates "**ELCs**", top-tier local corporates ("**TTLCs**") and non-UAE based clients headquartered elsewhere in the GCC ("**extended territory clients**") seeking traditional bank finance and other banking services; (ii) financial institutions division, which focuses on banks, finance and investment companies, asset managers, broker dealers, commodity houses and insurance companies; and (iii) strategic clients and government banking division, which focuses on large government-related entities and local blue-chip corporates.

The group's product-focused divisions include the (i) transactional banking division, which focuses on cash management, trade finance, bespoke client servicing and liability products such as fixed deposits; (ii) investment banking division, which focuses on conventional and Islamic debt capital markets instruments including debt underwriting and distribution services, structured asset and acquisition financing, debt restructuring, corporate advisory and structuring services and oversees and monitors ADCB's strategic investments (including the 25 per cent. stake in RHBC and certain other proprietary investments), infrastructure fund management and the evaluation of mergers and acquisitions and joint venture opportunities; and (iii) ADCB's Indian operations.

The following chart sets out the organisational structure of the wholesale banking group.



Although the consumer banking group oversees ADCB's Islamic banking operations, the wholesale banking group draws on the expertise of ADCB's Islamic banking specialists to offer Islamic banking products and services to its clients. See "– *Islamic banking*". As at 30 June 2010, the wholesale banking group was staffed by approximately 289 employees and had over 22,000 customers, over 90 per cent. of which were based in the UAE.

In response to the present, more challenging, economic environment and in order to continue to grow its wholesale banking group, ADCB (i) re-priced its loans to improve its profit margins through individually negotiating changes to credit spreads and introducing floor pricing (if not already present) with certain borrowers; and (ii) increased the stock levels of its customer deposits. ADCB is also (iii) developing new products and services for underserved and profitable market segments, such as SMEs; (iv) strengthening its risk management policies in order to further control the quality of its wholesale banking assets and liabilities; (v) managing NPLs through actively engaging clients, rescheduling again restructuring loans through its front-office in-line with clients' ability to repay outstanding loans and/or increasing collateral; (vi) leveraging its large corporate and institutional relationships to cross-sell investment banking and treasury products to its strategic and large corporate clients; (vii) expanding its transaction banking and investment banking business to increase ADCB's fee revenues and improve profit margins; and (viii) leveraging its international investments to develop new products and services (such as new Islamic products) and access new wholesale customers (for example, RHBC's clients operating in the GCC).

Client-focused divisions

Business banking

The business banking division comprises (i) client units, which cater to different industry sectors, and (ii) the business banking support unit, which performs a front-office control and documentation function. The business banking division offers a range of products and services to SMEs (entities with annual revenue of less than AED 100 million), ELCs (entities with annual revenue between AED 100 million and AED 350 million), TTLCs (entities with annual revenue above AED 350 million) and extended territory clients (typically large corporations based in other GCC countries that have operations in the UAE). The principal products and services offered by the division include cash management, trade finance, short-term working capital loans and term loans and other corporate and project financing. The group also offers liquidity management solutions.

Client units

SMEs. This unit provides SME customers with cash management, trade finance, corporate financing and deposit services. In order to control the costs of and risks associated with the services it provides to its SME clients, the unit provides clients with relatively standardised packages of services rather than separate solutions for each individual client. On a year-on-year basis from 2008, the SME division increased customer deposits (consisting of term and demand deposits) from SMEs. In addition, ADCB gained 5,372 new SME accounts among new and existing customers in the six months ended 30 June 2010 and expects to continue to grow its SME client base in the future. As at 30 June 2010, ADCB had approximately 22,000 SME customers compared to 17,716 as at 31 December 2009.

TTLCs. The TTLC division provides a customised package of products and services for each individual client and specialised trade finance, cash management, treasury and financing services to TTLCs. The division's extended territory clients typically seek ADCB's local expertise in trade finance products, including letters of credit and export and import finance. Almost all of these clients are based in the UAE, with the balance being the extended territory clients in other GCC countries.

Business banking support unit

The business banking support unit provides support to the business banking division through services including portfolio monitoring, document exception management, quality controls and assurance over front office activities, a well as preparing financing documents.

Financial institutions

The financial institutions division is responsible for managing ADCB's relationships with, as at 30 June 2010, approximately 230 financial institutions (including non bank financial institutions) located around the globe. These financial institutions comprise banks, finance and investment companies, asset managers, broker dealers, commodity houses and insurance companies. The division provides a range of trade finance, treasury, financing and other products and solutions to these financial institutions. The division is also responsible for maintaining nostro (where ADCB holds an account with other financial institutions) and vostro (where other financial institutions hold an account with ADCB) client relationships. ADCB's revenue from financial institutions declined in 2008 and 2009 as the focus was to reduce exposure to financial institutions, and especially banks, due to the global financial crisis. In addition, the financial institutions division is responsible for the allocation of limits for banks to other relevant areas of ADCB, including the treasury group. The division is focused on increasing revenues from ADCB's treasury and trade finance businesses, and its funded portfolio is being managed on a run-off basis.

Strategic clients and government banking division

The strategic clients and government banking division manages the wholesale banking group's relationships with major government entities and the largest corporate entities in the UAE in terms of size that are likely users of investment banking products. The division provides such clients with financing, trade finance, cash management, treasury and investment banking products and services. These strategic clients consist primarily of government departments, government-related corporates and local private sector companies. As at 30 June 2010, ADCB had approximately 60 strategic client relationships and approximately 160 government clients.

Through the relationships managed by this division, ADCB has acted as an arranger, underwriter or lead manager in a number of corporate and project finance transactions. These include public sector and infrastructure projects (including private public partnership ("**PPP**") projects), financing to quasi-sovereign investment companies and international debt capital markets offerings. See "*-Product-focused divisions – Investment banking*" and "*– Product-focused divisions – Corporate finance division*".

Product-focused divisions

Transactional banking

The transactional banking division provides corporate banking services to support the wholesale banking group's client focused divisions. The division offers cash management, trade services and trade finance products as well as liability products such as call accounts, fixed deposits and money market related deposits. The division's principal products and services include:

- *Cash management:* The division manages cash accounts and payment and collection products for its corporate and financial institution clients. It also provides escrow services and is closely involved in the management of deposit products.

- *Trade finance:* The division provides trade finance products and services such as export/ import letters of credit, payment guarantees, bills and collections.

- *Liability products:* The division is responsible for providing and managing liability products, including deposits.

- *Service:* The division is responsible for providing an enhanced service offering dedicated support for ADCB's most important client relationships.

ADCB is focused on significantly increasing its transaction banking capabilities, including its trade finance and cash management capabilities. With respect to trade finance, ADCB has (i) aligned its wholesale banking group coverage teams (both internally and with the credit group); (ii) built capacity for structured transactions, including the development of an Islamic trade finance delivery channel; (iii) launched an advanced internet-based trade finance platform to re-brand ADCB's trade finance offerings and enhance its capabilities; and (iv) reviewed and streamlined documentation practices.

With respect to cash management, ADCB (i) has increased clients (including government clients) using ADCB's cash management capabilities (ii) has launched programmes to strengthen deposit retention, drive the acquisition of deposits and cross-sell existing products, (iii) is providing yield-enhancing, principal-protected investments through the treasury and investments group, (iv) is exploring opportunities for providing transactional management services to niche customer groups such as universities, law and accounting firms and insurance companies; (v) is focusing on acquiring Sharia-compliant deposits; (vi) is building a payment system to deliver end-to-end cash management; and (vii) is driving efficiencies by offering streamlined processing and payment options.

Investment banking

The investment banking division primarily provides corporate advisory, origination, structuring, underwriting and syndication services for (i) asset-based finance; (ii) debt capital markets; (iii) structured financing and debt restructuring to corporations, financial institutions and government controlled entities. The division also provides corporate advisory and structuring services to clients to facilitate complex structured financing transactions, assists with investment management and transaction negotiation, and performs due diligence and sell-side valuations.

The division offers its products and services primarily to clients in the UAE, and especially in Abu Dhabi. Although the division does not focus on any particular industries or sectors, it has provided products and services to a disproportionately large number of real estate and energy companies due to the concentration of such companies in the region. The division routinely works with international banks as a co-arranger or co-lead manager in international debt offerings by GCC issuers and intends to position itself as the preferred local partner of these firms rather than directly competing with them.

Most of the division's clients are located in the UAE and the GCC.

The division's principal investment banking products and services include:

- *Asset-based finance:* The division offers asset-based finance (infrastructure and project financing) to local or multinational corporates.

- *Debt capital markets:* The division structures and arranges conventional bonds (including convertible bonds) on a syndicated or stand-alone basis. The division also offers structured and standardised Islamic finance, including Sharia-compliant financing and Sukuk issuances for its institutional clients, and intends to grow its Islamic debt capital markets business significantly in the future.

- *Structured financing and debt restructuring:* The division offers structured asset finance, acquisition finance (including leveraged finance) and debt restructuring for local or multinational corporates.

- *Corporate advisory and structuring:* The division provides corporate advisory and structuring services to clients to facilitate complex structured financings transactions. In addition, the division ssists with investment management, transaction negotiation, performing due diligence and sell-side asset valuations.

The division also (i) manages ADCB's strategic investments and certain of ADCB's proprietary investments; and (ii) oversees ADCB's infrastructure advisory and infrastructure-related fund management joint venture with Macquarie Bank. In addition, the division seeks and evaluates strategic opportunities for ADCB, such as mergers and acquisitions and joint ventures, and performs valuations of assets for investment purposes.

RHBC investment

The Investment banking division oversees ADCB's 25 per cent. ownership stake in RHBC, which provides a broad range of Malaysian financial products and services through its wholly-owned subsidiaries RHB Bank Bhd (the fourth largest Malaysian bank in terms of total assets as at 30 June 2010), RHB Islamic Bank Bhd, RHB Investment Bank Bhd and its 79.5 per cent. stake in RHB Insurance Bhd. This investment provided ADCB access to one of the largest emerging markets for Islamic finance products and positioned ADCB to pursue relationships with the approximately 60 Malaysian companies currently operating in the UAE, according to the Dubai Trade Office. ADCB currently appoints two members of RHBC's eight-member Board of Directors. ADCB's current appointees to RHBC's Board of Directors are Mohamed Al Dhaheri (also a Director of ADCB) and Arul Kandasamy, head of the investment banking division.

Infrastructure fund management

The division also oversees the joint venture ADCB formed with Australia's Macquarie Bank, focusing on infrastructure advisory services and infrastructure fund management. Funds operated by the infrastructure fund management joint venture had received approximately AED 3.3 billion of committed funds from investors as at 30 June 2010.

ADCB India operations

The wholesale banking group oversees ADCB's Indian banking operations. ADCB has two branches in India, located in Mumbai and Bangalore. These branches primarily provide corporate banking products and services, including asset liability and trade finance products, to ADCB's Indian and UAE corporate clients. While ADCB's Indian operations include certain limited consumer banking operations, such operations are small in relation to the branches' overall operations. ADCB's Indian branches are regulated by the Reserve Bank of India.

Competition for wholesale banking group

The primary competitors to ADCB's wholesale banking business include Emirates NBD, Mashreq Bank, National Bank of Abu Dhabi, First Gulf Bank and HSBC Middle East Limited. ADCB also competes with certain international banks such as Standard Chartered Bank, Barclays Bank, BNP and RBS. In debt capital markets and securities underwriting and distribution, ADCB works with international investment banks such as Goldman Sachs, Citibank, Morgan Stanley and UBS as co-lead or joint managers, rather than competing with them. The Management of ADCB believes that, in some respects, ADCB's wholesale banking business is facing less competition as a result of the global financial crisis, as (i) many international banks have sought to retreat to their core businesses in their home markets; and (ii) pressures on pricing have eased, especially with respect to assets.

Certain aspects of ADCB's wholesale banking business, including access to deposits and trade finance, have become increasingly competitive due to tight domestic liquidity conditions for term deposits and a renewed focus on non-funded lending by local banks.

In Islamic wholesale banking, ADCB's principal competitors include Abu Dhabi Islamic Bank and Dubai Islamic Bank.

Treasury and investments group

The treasury and investments group manages ADCB's commercial and proprietary treasury operations and investment securities and CDS portfolios.

In the six months ended 30 June 2010, ADCB's treasury and investments group generated operating income of AED 415 million, representing 17 per cent. of ADCB's total operating income.

Treasury division

The group's treasury division offers a range of treasury services including money market, interest rate, currency and commodity services to domestic and foreign corporate, public sector and government entities, as well as to HNWI clients, international clients, investors and financial institutions. The products include interest rate, currency and commodity derivative products as well as other structured treasury solutions and risk management products.

The division is also responsible for monitoring and managing ADCB's cash flow and liquidity as well as ADCB's foreign exchange, investments, interest rate risks and ensures that ADCB operates within loans to stable resources ratio by performing daily liquidity tests and asset to deposit ratio tests (including loan to deposit ratio tests). This is reported on a monthly basis to the ALCO.

In its treasury operations, ADCB aims to continue to leverage its wholesale and retail banking client relationships to increase its market share.

Investments division

ADCB's investments division manages ADCB's securities portfolio. Its investment strategy focuses on (i) investments that complement and facilitate the division's clients' activities; (ii) investments that do not compromise ADCB's short to medium-term liquidity positions; and (iii) investments that satisfy ADCB's low risk appetite but generate attractive returns on capital. The investments are evaluated periodically and recorded on a mark-to-market or mark-to-model basis on ADCB's statement of financial position.

In addition to ADCB's investments and exposures primarily in highly liquid sovereign and quasi sovereign 0 to 20 per cent. risk weighted fixed income securities issued by UAE and GCC based issuers, this division also has investments in (i) listed or unlisted mutual funds in the UAE; (ii) listed or unlisted equity shares of medium-sized companies, primarily based in the UAE; and (iii) certain FRNs and bonds (including legacy CDOs, cash flow CDOs and synthetic CDSs originated in, or with underlying exposures primarily in, the United States, Europe and India).

As a result of the successful implementation of ADCB's strategy to increase its liquidity, customer deposits grew significantly in the first six months ended 30 June 2010. Such deposits were invested in liquid assets, mainly UAE federal government and other government related bonds. The total investment securities portfolio managed by ADCB grew from AED 4,373 million as at 31 December 2009 to AED 7,030 million as at 30 June 2010. As a result of the global financial crisis, new investments in non-GCC securities were restricted starting in July 2007. Since that date, the division has only made investments in certain listed mutual funds and UAE federal government and other government-related bonds. As at 30 June 2010, the net book value of the total investment securities portfolio managed was AED 7,030 million and the net book value of ADCB's CDS portfolio was AED 1,709 million.

The table below sets forth ADCB's investment securities and CDS portfolios on the dates indicated.

Investment securities as at 31 December		Investment securities as at 30 June
2008	**2009**	**2010**
	(AED millions)	
3,422	**4,373**	**7,030**

CDSs as at 31 December		CDSs as at 30 June
2008	**2009**	**2010**
	(AED millions)	
2,395	**2,007**	**1,709**

Until 2007, ADCB had a relatively large portion of its securities portfolio invested outside the UAE and GCC (45 per cent. as at 31 December 2007). As at 30 June 2010, as a result of losses arising from the global credit crisis, investments outside the UAE and GCC represented only 12.7 per cent. of its portfolio. The geographical distribution of ADCB's securities investment portfolio as at 30 June 2010 was AED 4,802 million (68.3 per cent.) in the UAE, AED 1,340 million (19 per cent.) in other GCC countries and AED 887 million (12.7 per cent.) in the rest of the world.

In 2005, ADCB initiated a geographic and sectoral diversification strategy in respect of its investment assets. Pursuant to this strategy, it made a number of investments in US structured finance assets, FRNs (including SIVs), CDOs and CDSs in the United States and Europe. A substantial portion of these investments were impaired during the global financial crisis in 2007 and 2008, which prompted ADCB to change its investment strategy.

In the course of changing its investment strategy, over the past twelve months ADCB has sold or restructured many of the investments referred to above. In particular, ADCB is in the process of restructuring the largest of its CDS exposures, which relates to a special purpose vehicle with a collateral pool comprised largely of collateralised debt obligations backed by a range of asset types from commercial property to financial institutional Tier I debt.

For more information about the risks associated with these investments, see "*Risk Factors – Factors that may affect ADCB's ability to fulfil its obligations under Notes issued under the Programme as Guarantor – Risks relating to ADCB's business – Difficult macro-economic and financial market conditions have affected and could continue to materially adversely affect ADCB's business, results of operations, financial condition and prospects.*"

The table below sets forth ADCB's impairment allowances on the dates indicated.

	As at 31 December		As at 30 June
	2008	**2009**	**2010**
		(AED millions)	
	AED	**AED**	**AED**
Impairment allowances			
Investment securities	296.1	540.1	218.3
CDS	443.6	244.5	79.2
Total impairment allowances	**739.7**	**784.6**	**297.5**

Competition for treasury operations

The management of ADCB believes that ADCB has market leading expertise in derivative products and structured treasury operations as compared to local banks. In addition to competing with the local UAE banks, ADCB competes with a number of international banks in this business, including HSBC, Standard Chartered Bank, Citibank and Deutsche Bank. These banks have a wealth of experience in international treasury operations and market knowledge in this area and may pose a significant threat to ADCB's franchise in the UAE market. However, management believes that ADCB's strong relationships with its TTLCs, strategic clients, SMEs and financial institutions, combined with its treasury products expertise, will help sustain or enhance its market position in the foreseeable future.

Islamic banking

The Islamic banking division provides a comprehensive range of liability and asset products for retail, wealth management, corporate, treasury and SME clients. In addition to "ADCB Meethaq" (its existing Sharia-compliant platform), ADCB established a UAE-based wholly owned subsidiary, Abu Dhabi Commercial Islamic Finance Prvt.J.S.C. ("**ADCIF**"), in June 2009 with an initial capital investment of AED 200 million which was increased to AED 500 million in December 2009. As a result, ADCB currently operates two separate Islamic banking structures through its Islamic banking division and ADCIF which are serviced through the integrated infrastructure facilities of ADCB. The Islamic banking division provides corporate lending, retail lending, corporate deposits, retail deposits, treasury solutions and open architecture investment products and services while ADCIF provides Sukuk issuances, retail lending, corporate deposits and open architecture investments. ADCB currently uses its existing processing infrastructure and distribution channels for its Islamic banking operations in order to avoid any internal competition and duplication of resources. All Islamic banking products and services are regulated by the Central Bank and overseen by an independent Sharia Supervisory Board. The Sharia Supervisory Board is responsible for reviewing, approving and overseeing all of ADCB's Sharia-compliant products and services, product structures and documentation. As at June 30, 2010 and as at December 31, 2009, ADCB Meethaq held AED 6,336.12 million and AED 3,934.39 million respectively, of total Islamic customer deposits. The total Islamic assets of ADCB Meethaq as at 30 June 2010 and as at 31 December, 2009, were AED 2,721.99 million and AED 1,816.57 million, respectively.

ADCB competes with a number of Islamic banks in the region (including Dubai Islamic Bank, Emirates Islamic Bank, Al Hilal Bank and Abu Dhabi Islamic Bank), multinational banks with their own Islamic banking franchises (HSBC Amanah and Standard Chartered Bank Sadiq) and some local commercial banks with their own Islamic banking departments or Islamic finance companies (Mashreq Bank, National Bank of Abu Dhabi and First Gulf Bank). With its Islamic banking platform in place, ADCB's strategy is to focus on increasing the contribution of Islamic banking to ADCB's net profit, particularly through offering new Sharia-compliant products and cross-selling of Sharia-compliant products with its existing products by positioning itself as the UAE's conventional bank with a strong platform for Sharia-compliant products and services.

Competitive environment

The UAE banking sector currently comprises 51 banks, of which eight are Islamic banks, and branches or subsidiaries of 28 foreign banks. The licensed foreign bank branches and subsidiaries focus mainly on consumer banking, trade finance, foreign currency operations and government-related business. Foreign bank participation in public sector financing has had a significant downward effect on margins in this area. The UAE banking market is becoming increasingly competitive and challenging.

Although there are a large number of banks operating in the UAE, the top five UAE banks accounted for approximately one half of the UAE's loan and deposit markets according to a report published by the Central Bank in June 2010. UAE local banks enjoy tax advantages with zero corporate, income and sales tax while international banks operating in the UAE are subject to 20 per cent. corporate tax on their profits.

Employees

The total number of ADCB employees as at 30 June 2010 was 2,447 as compared to 2,708 as at 31 December 2009. ADCB had experienced a steady increase in employee headcount in the five years to 2008, but restricted hiring during 2009 and 2010 in line with the slowdown in the economy and to control its operating costs. The total number of outsourced workers as at 30 June 2010 was 1,709 as compared to 1,451 as at 31 December 2009.

ADCB is committed to training and developing new and existing staff in order to ensure that ADCB continues to be supported by the skills required for its operational success. This includes the establishment of both internal and external training programmes for staff members. Training courses cover leadership skills, functional and technical skills and "soft skills" such as time management, communication and team building. For its top executives and senior managers, ADCB has partnered with leading global educational institutions, including INSEAD, to keep them up to date on latest management trends and leadership skills. Technical skill courses under ADCB's "Academy of

Excellence” programme cover ADCB’s products and services, anti-money laundering, customer service, internal control and ADCB’s core banking system. For ADCB’s new employees, ADCB offers a “Marhaba Day” induction programme.

In addition to private medical insurance, pension schemes for UAE nationals and other benefits, ADCB has variable remuneration schemes for middle and senior management under which performance bonuses and other incentives (including interests in ADCB’s shares) are awarded based on annual performance. The awards are dependent on individual performance, the performance of the respective business unit and the performance of ADCB as a whole. For example, ADCB’s senior executives can receive cash bonuses or stock incentive awards based on ADCB’s growth in core net profit, excluding extraordinary items, under the executive reward plan. In addition, ADCB’s senior executives can receive interests in ADCB’s shares under the long term incentive plan. Cash and stock incentive awards under these plans vest over a three-year period. Other cash bonuses are restricted for a period (up to 12 months) determined by the Board, on an annual basis.

ADCB also has an annual performance appraisal scheme for all staff and merit pay increases and bonuses are paid on the basis of performance rankings. ADCB also pays sales staff incentives for achieving sales and revenue targets.

Emiratisation

In 1999, as part of a policy of “Emiratisation”, UAE banks were instructed by the UAE federal government to increase the number of UAE nationals on their payroll by at least 4 per cent. per annum.

In line with the UAE federal government’s instructions, ADCB has made a commitment to employing and training UAE nationals. ADCB has implemented a wide number of initiatives to recruit, train and retain qualified UAE nationals across all business units and positions in ADCB. As a result, the number of UAE nationals employed by ADCB grew from 253 in 2005 to 923 in 2009. The percentage of UAE national employees at ADCB grew from 15.41 per cent. in 31 December 2005 to 35.7 per cent. in 31 December 2009.

Information technology

ADCB’s operations and IT Department is responsible for ADCB’s information technology (“**IT**”) strategy and planning and all related technical services throughout ADCB. The head of the department is responsible for developing and implementing a collective IT and project management strategy across ADCB. Since ADCB’s restructuring in 2004, ADCB has aimed to build a collaborative IT and project management framework that leverages IT assets and resources. The IT strategy is focused on providing reliable information and systems to its customers and employees in a secure environment. It assesses ADCB’s future operational needs and implements new IT systems to meet them, in each case with reference to ADCB’s overall technology strategy and with the primary aim of delivering efficient, cost-effective systems.

In the last few years, ADCB focused on modernising its IT systems. ADCB’s IT systems are comprised of relatively new, updated modules and have been deployed largely based on commercially available systems with very limited “in-house” software. Accordingly, management believes that its IT platform is easily scalable to accommodate growth in ADCB’s consumer and wholesale banking businesses. In addition, as ADCB’s IT system is relatively de-centralised, it remains flexible so that it can service the different types of banking products that ADCB offers.

In terms of security and reliability of service, ADCB is in the process of upgrading its disaster and recovery site on remote premises that can be activated in the case of any unforeseen accident. ADCB’s disaster recovery plans aim to ensure that critical systems and data continue to be fully operational and to provide essential services to its customers. ADCB carries out daily and other periodic data back-ups which are stored at a location outside of Abu Dhabi. In cases of emergency, ADCB can switch over to the disaster recover site within one hour. ADCB’s data centre is located outside the city limits of Abu Dhabi in a Tier 4 facility providing technical facilities certified in accordance with the Uptime Institute.

Additionally, ADCB sends copies of its critical systems and data to a remote location outside of Abu Dhabi daily, in compliance with the Central Bank’s instructions. ADCB also carries out regular intrusion tests on its IT network with the assistance of an external vendor.

Property

ADCB's principal fixed assets include property and equipment. Notable real estate locations inside Abu Dhabi owned by ADCB include (i) ADCB's head-office building, situated in the central business district area of Abu Dhabi City; (ii) a site at Plot C20, Abu Dhabi National Exhibition Centre, part of the Capital Centre District; (iii) a site at Plot 36.C Masker Al Nahyan in Abu Dhabi City (at which ADCB is in the process of constructing an office building); and (iv) other sites in Abu Dhabi including the ADCB Tourist Club branch building and Najda Street Buildings.

In addition, ADCB owns a number of buildings across the UAE associated with its business operations as part of its branch network, corporate space and storage facilities.

Because ADCB is not wholly owned by UAE nationals as a result of it being a public company, it is not able to be registered as an owner of real estate situated in Abu Dhabi outside restricted areas. This does not apply to ADCB's current headquarters and certain other plots, which were historically registered in ADCB's name. ADCB has, on occasion, resolved this issue by arranging for a director or executive, or companies associated with them, to hold property located in Abu Dhabi on behalf of ADCB. While this arrangement has proven an effective means of complying with Abu Dhabi law, it exposes ADCB to certain risks with respect to certain real estate properties, including the risk of such property passing to the custodian's heirs under Sharia law if the custodian were to die intestate. See "*Risk Factors – Factors that may affect ADCB's ability to fulfill its obligations under Notes issued under the Programme as Issuer or Guarantor – Risks relating to ADCB's business – ADCB is exposed to risk of loss relating to its real estate property as a result of the interplay between ADCB's ownership structure, Abu Dhabi real estate foreign ownership restrictions and UAE laws of inheritance*". In order to mitigate any such risks, ADCB has organised a company owned by employees of ADCB who are UAE nationals specifically for the purpose of holding its UAE properties. The process of transferring the properties from such individuals to the company is ongoing. As at 30 June 2010, Jasem Al Darmaki or companies associated with him, owned approximately AED 246.8 million worth of real estate as custodian for ADCB, including two sites located at Capital Centre and Al Nahyan Camp.

Litigation

There were a number of routine legal proceedings pending against ADCB as at 30 June 2010, the value of which was not material in the context of ADCB's balance sheet. Based on the advice of ADCB's legal advisors, senior management believes that no significant liability is likely to arise from these proceedings. Therefore, no material provision has been made as at 30 June 2010 regarding any outstanding legal proceedings against ADCB. Pending legal proceedings are reviewed on an ongoing basis and provisions are made at the end of each fiscal quarter subject to the approval of the CEO and the Board.

During 2008, ADCB filed, as lead-plaintiff, a claim in the courts of New York, USA against certain rating agencies and financial institutions. The claim relates to losses incurred by ADCB in 2007 in connection with its investment in structured investment vehicles known as Cheyne. Based on advice from ADCB's legal advisors, senior management does not believe that the ultimate resolution of these proceedings will have a significant adverse effect on the financial position of ADCB.

In August and September 2009, ADCB commenced legal proceedings against the Saad Group and the Algosaibi Group in several jurisdictions in order to recover certain assets in connection with its lending to these Saudi-based business groups. In July 2010, ADCB obtained judgment from the United Kingdom courts in a sum of approximately U.S.$ 33 million plus interest, in relation to its case against Saad Contracting & Trading. Enforcement of this judgment, and other substantive debt claims against the Saad Group and the Algosaibi Group in UAE and Saudi Arabia, are ongoing. See "*– Recent developments*".

Insurance

ADCB maintains various insurance policies and coverage. These include standard property insurance coverage for its assets (premises and contents), crime and professional indemnity insurance coverage. ADCB also maintains a limited terrorism insurance cover (based on commercial viability) for its assets in the UAE. The assets are insured on reinstatement cost basis and the coverage terms may be considered viable as at the date of procuring the insurance policies. There are, however, some assets which are underinsured. For details, see "*Risk Factors – Factors that may affect ADCB's ability to fulfil its obligations under Notes issued under the Programme as Issuer or as Guarantor – ADCB's insurance coverage may not be adequate*".

SELECTED FINANCIAL INFORMATION OF ADCB

During 2009, ADCB changed its classification of certain balances and, as a result, has reclassified the corresponding amounts in the unaudited 2008 comparatives included in the audited consolidated financial statements for the year ended 31 December 2009 for consistent presentation. The 31 December 2008 financial information presented throughout this document, to the extent it varies from the prior year, has been derived from the unaudited comparative 31 December 2008 information included in the audited consolidated financial statements for the year ended 31 December 2009. The 2007 comparative information has not been changed to reflect these reclassifications.

The 31 December 2008 reclassifications primarily related to the following:

(a) *Economic sector:* ADCB classifies lending activity by end use. For example, lending towards real estate was classified either under "development and construction" or "real estate investment", irrespective of the relevant borrower's economic sector, in order to enable the reader of financial statements to assess accurately the real estate exposure of ADCB. This did not have an impact on the total loan book;

(b) *Credit default swaps:* ADCB has classified all provisions on credit default swaps in other liabilities, whereas in prior periods certain of these provisions were included within the loan loss provision as it was management's view that these provisions represented potential credit losses to which ADCB was exposed. In 2009, management decided it was more appropriate to classify these provisions as other liabilities to enable the user of financial statements to compute provision coverage ratios accurately. This reclassification caused the net loans and advances to increase by approximately AED269 million (or an increase of 0.25 per cent) over the previously presented 2008 amounts; and

(c) *Derivative assets:* ADCB previously recorded its net derivative asset (or liability) on instruments held for hedging, whereas it now records the gross derivative asset and liability. This has resulted in an increase in derivative assets of AED 415 million and a corresponding increase in the derivative liability.

Otherwise, there were other minor reclassifications that did not have a material impact.

Statement of financial position – maturity profile

The table below summarises the maturity profile of ADCB's assets and liabilities as at 30 June 2010 and 31 December in each of 2009, 2008 and 2007, based on remaining contractual maturities (which do not take into account effective maturities as indicated by ADCB's deposit retention history and the availability of liquid funds):

	As at 30 June 2010					
	Total	**Less than 3 months**	**3 months to 6 months**	**6 months to 1 year**	**1 year to 3 years**	**Over 3 years**
				AED'000		
Assets						
Cash and balances with Central Banks	4,827,275	4,827,275	–	–	–	–
Deposits and balances due from banks	17,313,361	17,313,361	–	–	–	–
Trading securities	205,495	205,495	–	–	–	–
Loans and advances, net	118,756,597	18,760,990	2,091,860	6,149,400	24,761,614	66,992,733
Derivative financial instruments	5,389,827	706,089	34,682	333,724	1,600,663	2,714,669
Investment securities	7,029,676	512,701	544,505	59,863	5,897,549	15,058
Investment in associates	4,964,375	73,460	–	–	–	4,890,915
Investment properties	490,328	–	–	–	–	490,328
Other assets	6,803,312	159,650	–	–	–	6,643,662
Property and equipment, net	818,781	–	–	–	–	818,781
Total assets	**166,599,027**	**42,559,021**	**2,671,047**	**6,542,987**	**32,259,826**	**82,566,146**
Liabilities and equity						
Due to banks	4,107,338	1,439,519	992,101	257	1,251,352	424,109
Customers' deposits	96,830,559	65,901,622	8,145,264	19,357,196	3,424,122	2,355
Mandatory convertible securities – liability component	74,974	–	–	–	–	74,974
Short and medium term borrowings	23,831,793	1,983,420	2,207,588	2,770,967	10,545,840	6,323,978
Derivative financial instruments	5,653,057	200,154	32,680	431,357	1,744,603	3,244,263
Long term borrowings	8,506,733	–	–	–	–	8,506,733
Other liabilities	8,855,058	6,389,681	–	–	–	2,465,377
Equity	18,739,515	–	–	–	–	18,739,515
Total liabilities and equity	**166,599,027**	**75,914,396**	**11,377,633**	**22,559,777**	**16,965,917**	**39,781,304**
Liquidity gap	**–**	**(33,355,375)**	**(8,706,586)**	**(16,016,790)**	**15,293,909**	**42,784,842**
Cumulative liquidity gap	**–**	**(33,355,375)**	**(42,061,961)**	**(58,078,751)**	**(42,784,842)**	**–**

	As at 31 December 2009					
	Total	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	Over 3 years
	AED'000					
Assets						
Cash and balances with Central Banks	4,139,015	4,139,015	–	–	–	–
Deposits and balances due from banks	18,348,988	12,043,140	379,645	900,000	1,336,730	3,689,473
Trading securities	86,561	86,561	–	–	–	–
Loans and advances, net	116,610,292	19,689,111	4,556,118	5,537,117	20,070,926	66,757,020
Derivative financial instruments	4,953,019	322,859	49,098	92,131	788,017	3,700,914
Investment securities	4,372,744	884,482	48,251	79,596	207,539	3,152,876
Investment in associates	4,582,659	–	–	–	–	4,582,659
Investment properties	549,492	–	–	–	–	549,492
Other assets	5,774,287	5,774,287	–	–	–	–
Property and equipment, net	791,721	–	–	–	–	791,721
Total assets	**160,208,778**	**42,939,455**	**5,033,112**	**6,608,844**	**22,403,212**	**83,224,155**
Liabilities and equity						
Due to banks	4,738,201	1,863,336	303,204	992,101	1,089,671	489,889
Customers' deposits	86,299,957	65,245,527	12,701,226	6,783,316	1,567,987	1,901
Mandatory convertible securities – liability component	109,049	–	–	–	109,049	–
Short and medium term borrowings	28,921,804	606,870	4,129,706	4,194,847	10,247,378	9,743,003
Derivative financial instruments	4,689,489	352,955	48,367	147,995	426,165	3,714,007
Long term borrowings	8,619,494	–	–	–	–	8,619,494
Other liabilities	7,740,665	7,740,665	–	–	–	–
Equity	19,090,119	–	–	–	–	19,090,119
Total liabilities and equity	**160,208,778**	**75,809,353**	**17,182,503**	**12,118,259**	**13,440,250**	**41,658,413**
Liquidity gap	**–**	**(32,869,898)**	**(12,149,391)**	**(5,509,415)**	**8,962,962**	**41,565,742**
Cumulative liquidity gap	**–**	**(32,869,898)**	**(45,019,289)**	**(50,528,704)**	**(41,565,742)**	**–**

	As at 31 December 2008					
	Total	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	Over 3 years
	AED'000					
Assets						
Cash and balances with Central Banks	3,911,009	3,861,009	50,000	–	–	–
Deposits and balances due from banks	17,528,422	17,090,255	36,730	8,500	369,749	23,188
Loans and advances, net	109,081,089	33,942,291	1,410,958	10,754,132	15,701,487	47,272,221
Derivative financial instruments	6,617,613	686,521	118,498	86,797	2,365,662	3,360,135
Investment securities	3,422,794	183,728	48,653	306,113	717,318	2,166,982
Investment in associates	4,427,529	–	–	–	–	4,427,529
Investment properties	632,492	–	–	–	–	632,492
Other assets	2,233,680	2,233,680	–	–	–	–
Property and equipment, net	575,841	–	–	–	–	575,841
Total assets	**148,430,469**	**57,997,484**	**1,664,839**	**11,155,542**	**19,154,216**	**58,458,388**
Liabilities and equity						
Due to banks	6,905,263	5,807,154	435,873	23,959	241,477	396,800
Customers' deposits	84,360,821	62,468,078	8,614,566	6,205,635	3,758,753	3,313,789
Mandatory convertible securities – liability component	168,435	–	–	–	168,435	–
Short and medium term borrowings	28,427,189	1,486,825	403,286	5,405,344	12,520,218	8,611,516
Derivative financial instruments	6,778,893	866,226	123,006	60,569	2,469,145	3,259,947
Long term borrowings	2,139,359	–	–	–	–	2,139,359
Other liabilities	3,735,357	3,735,357	–	–	–	–
Equity	15,915,152	–	–	–	–	15,915,152
Total liabilities and equity	**148,430,469**	**74,363,640**	**9,576,731**	**11,695,507**	**19,158,028**	**33,636,563**
Liquidity gap	**–**	**(16,366,156)**	**(7,911,892)**	**(539,965)**	**(3,812)**	**24,821,825**
Cumulative liquidity gap	**–**	**(16,366,156)**	**(24,278,048)**	**(24,818,013)**	**(24,821,825)**	**–**

	As at 31 December, 2007					
	Total	Less than 3 months	3 months to 6 months	6 months to 1 year	1 year to 3 years	Over 3 years
	AED'000					
Assets						
Cash and balances with Central Banks	15,657,588	15,157,588	–	500,000	–	–
Deposits and balances due from banks	6,030,364	5,290,291	586,802	143,063	–	10,208
Trading securities	122,433	–	–	–	122,433	–
Loans and advances, net	75,676,082	24,854,325	2,726,356	2,654,441	9,950,542	35,490,418
Derivative financial instruments	3,068,242	132,773	208,215	149,426	380,064	2,197,764
Investment securities	2,968,188	64,711	99,486	93,134	1,396,309	1,314,548
Investment properties	445,730	–	–	–	–	445,730
Other assets	1,752,721	1,752,721	–	–	–	–
Property and equipment, net	492,501	–	–	–	–	492,501
Total assets	**106,213,849**	**47,252,409**	**3,620,859**	**3,540,064**	**11,849,348**	**39,951,169**
Liabilities and equity						
Due to banks	5,598,376	3,095,990	2,168,859	–	–	333,527
Customers' deposits	57,160,820	48,790,290	3,964,780	3,564,579	829,411	11,760
Short and medium term borrowings	27,370,264	453,815	170,046	1,383,650	11,184,552	14,178,201
Derivative financial instruments	2,413,269	165,382	205,379	111,843	439,636	1,491,029
Other liabilities	2,259,377	2,259,377	–	–	–	–
Equity	11,411,743	1,288,575	–	–	–	10,123,168
Total liabilities and equity	**106,213,849**	**56,053,429**	**6,509,064**	**5,060,072**	**12,453,599**	**26,137,685**
Liquidity gap	**–**	**(8,801,020)**	**(2,888,205)**	**(1,520,008)**	**(604,251)**	**13,813,484**
Cumulative liquidity gap	**–**	**(8,801,020)**	**(11,689,225)**	**(13,209,233)**	**(13,813,484)**	**–**

Funding

The following table sets out the sources of funding for ADCB as at 30 June 2010 and 31 December in each of 2009, 2008 and 2007.

	As at 31 December						As at 30 June	
	2007		2008		2009		2010	
	(AED millions and as a percentage of total funding)							
	AED	%	AED	%	AED	%	AED	%
Customer deposits								
Demand deposits	13,347.84	23.4	14,653.83	17.4	17,510.67	20.3	19,922.28	20.6
Time deposits	34,206.63	59.8	64,438.70	76.4	56,607.81	65.6	62,350.92	64.4
Saving deposits	1,114.24	1.9	1,230.65	1.4	1,271.80	1.5	1,383.90	1.4
Other	8,492.11	14.9	4,037.64	4.8	10,909.68	12.6	13,173.46	13.6
Total customer deposits	57,160.82	100.0	84,360.82	100.0	86,299.96	100.0	96,830.56	100.0
Due to banks								
Current and demand deposits	227.83	4.1	998.34	14.5	523.88	11.1	911.89	22.2
Short and medium term deposits	5,370.55	95.9	5,906.92	85.5	4,214.32	88.9	3,195.44	77.8
Total due to banks	5,598.38	100.0	6,905.26	100.0	4,738.20	100.0	4,107.33	100.0
Mandatory convertible securities – liability component	–	–	168.44	–	109.05	–	74.97	–
Short and medium term borrowings	24,031.39	–	28,427.19	–	28,921.80	–	23,831.79	–
Long term borrowings	3,338.87	–	2,139.36	–	8,619.49	–	8,506.73	–
Total funding	**90,129.46**	**100.0**	**122,001.07**	**100.0**	**128,688.50**	**100.0**	**133,351.38**	**100.0**

ADCB's principal source of funding is its customer deposits, which as at 30 June 2010, accounted for approximately 73 per cent of its total funding as compared to 67 per cent. as at 31 December 2009.

As at 30 June 2010, the aggregate amount of ADCB's liabilities totalled AED 147.9 billion, including customer deposits of AED 96.8 billion as compared to AED 141.1 billion as at 31 December 2009, including customer deposits of AED 86.3 billion.

Provisions for credit losses

The following table sets out the movements in provisions for credit losses as at 30 June 2010 and 31 December in each of 2009, 2008 and 2007 *(in AED millions)*:

	As at 31 December			As at 30 June
	2007	**2008**	**2009**	**2010**
Balance at the beginning of the year	982.9	1,150.0	1,990.0	4,232.3
Currency translation adjustment	4.4	(7.2)	0.8	0.1
Net amounts written back/(off)	19.3	88.8	(726.8)	(758.1)
Recoveries	(151.9)	(176.3)	(109.3)	(100.0)
Charge for the period	295.3	934.7	3,077.6	1,786.8
Balance	**1,150.0**	**1,990.0**	**4,232.3**	**5,161.1**

The net charge to income on account of provision for possible credit losses was AED 1,686.8 million as at 30 June 2010 and AED 2,968.3 million in 2009. As a result, non-performing loans as a percentage of gross loans increased from 5.2 per cent. as at 31 December, 2009 to 5.4 per cent. as at 30 June 2010 and the provision, as a percentage of non-performing loans, increased from 67.8 per cent. as at 31 December 2009 to 76.7 per cent. as at 30 June 2010. ADCB adopts a conservative approach towards provisioning loans and other credit.

Related party transactions

ADCB enters into transactions with major shareholders, directors, executive management and their related concerns in the ordinary course of its business and at commercial interest and commission rates. As at 31 December 2009, ADCB had made loans and advances to related parties totalling AED 61.1 million and had received customer deposits from related parties totalling AED 2,683 million. ADCB also had irrevocable commitments and contingencies with related parties in the amount of AED 6.06 million as at 31 December 2009. Due to the nature of ADCB's controlling shareholder, the Government of Abu Dhabi (which encompasses a number of government controlled entities), it is impractical to disclose fully all related party transactions between ADCB and its indirect controlling shareholder as well as ADCB's related companies as described by IAS 24.

Further information

For further detail on the financial information of the Guarantor, please see (i) notes to the consolidated financial statements for the year ended 31 December 2007, (ii) the notes to the consolidated financial statements for the year ended 31 December 2008, (iii) the notes to the consolidated financial statements for the year ended 31 December 2009 and (iv) notes to the condensed consolidated financial statements for the period ended 30 June 2010, each set out in the Annexure to this Information Memorandum.

GOVERNANCE AND MANAGEMENT

The Board of Directors (the "**Board**") is ADCB's principal decision-making forum. It has overall responsibility for the management and strategy of ADCB and is accountable for creating and delivering sustainable shareholder value through its guidance of ADCB's business. In particular, it sets the goals, strategies and policies of ADCB. The Board monitors the performance of ADCB's businesses and guides and supervises ADCB's executive management.

During 2009, ADCB adopted a corporate governance code which is based on international best practices. The core principles of ADCB's corporate governance code comprise: (i) responsibility and the clear division and delegation of authority; (ii) accountability in the relationships between ADCB's management and the Board, and between the Board and the shareholders and other stakeholders; (iii) transparency and disclosure to enable stakeholders to assess ADCB's financial performance and condition; and (iv) fairness in the treatment of all stakeholders. In recognition of ADCB's focus on corporate governance, internal controls and risk management, ADCB was named the top bank in the GCC in terms of liquidity, volatility and transparency according to a survey conducted by TNI (The National Investor) and Hawkamah in April 2009. Also in 2009, ADCB won the Hawkamah – UAB Award for corporate governance, which placed ADCB as the best for corporate governance in UAE. In 2010, ADCB won the World Finance Magazine's award for "Best Corporate Governance in the UAE". Also in 2010, IFC, a division of the World Bank, selected ADCB as one of its corporate governance "success stories".

The Board currently consists of 11 members, elected by ADCB's shareholders. The roles of the Chairman and the Chief Executive Officer ("**CEO**") are separate and distinct, and there is clear division between their respective roles and responsibilities. The Chairman's main responsibility is to lead the Board and ensure the effective engagement and contribution of all Directors, so that the Board may fully discharge its legal and regulatory responsibilities. The Board appoints the CEO and specifies his powers and authority.

The day-to-day management of ADCB has been delegated by the Board to the CEO. The CEO is responsible for controlling and monitoring ADCB's business on a day-to-day basis, recommending strategy to the Board, leading senior management and implementing the Board's strategic and operational decisions. The CEO also serves on the Board as an executive director. All other directors of the Board are non-executive directors.

All Directors are required to seek re-election by shareholders every three years. Directors are permitted to elect any Director nominated to fill a vacancy, but any Director so appointed must seek election by shareholders at the next annual general assembly. One-third of the Board is required to seek re-election on an annual basis.

Any candidate for appointment as a Director must first be considered and approved by the Board's nomination, compensation and HR committee. Amongst other things, the Committee will consider whether the skills held by the candidate Director are suitable. Where necessary, the Committee will consider whether the candidate meets ADCB's criteria for independence. The Council, as the majority shareholder, has the right to appoint a proportionate number of members of the Board to its shareholding in ADCB. At present, the Chairman of the Board is one of the Directors appointed by the the Council and the Council has appointed six other members of the Board. Where the Council intends to appoint a new Director, it is required to consult with the Committee in advance of such appointment. Decisions of the Board are, with limited exceptions, made by majority votes of those present (in person or by proxy) at the meeting.

Board of Directors

As of the date of this Base Prospectus, the Board comprises:

Position	Age	Name, background and other positions
Chairman of the Board. **Chairman of the Risk and Credit Committee.** **Member of the Nomination, Compensation and HR Committee.**	**53**	***Mr. Eissa Al Suwaidi*** Executive Director – Abu Dhabi Investment Council; Board Member – Arab Bank Corporation (B.S.C.); Vice Chairman – Arab Bank Corporation (Egypt S.A.E.);Board Member – Abu Dhabi National Oil Company for Distribution, International Petroleum Investment Company, Abu Dhabi Fund for Development; Board Member – Emirates Integrated Telecommunications Company "du" and Board Member – Emirates Investment Authority.
Vice-Chairman of the Board. **Chairman of the Nomination, Compensation and HR Committee.** **Member of the Risk and Credit Committee.**	**38**	***Mr. Mohammad Sultan Ghannoum Al Hameli*** Board Member – Abu Dhabi Development Fund; Board Member – Abu Dhabi Airport Company; and Assistant Undersecretary of the Finance Department of the Government of Abu Dhabi.
Board Director. **Chairman of the Audit and Compliance Committee.** **Member of the Corporate Governance Committee.**	**47**	***Mr. Mohamed Darwish Al Khouri*** Executive Director – Internal Equities Department, ADIA; Member– Investment Committee, ADIA; Vice Chairman – Oman and Emirates Holding Company and Chairman – Executive Committee, Oman and Emirates Holding Company.
Board Director. **Member of the Corporate Governance Committee.** **Member of the Risk and Credit Committee.**	**60**	***Mr. Abdulla Khalil Al Mutawa*** General Manager – Office of Sheikh Suroor Bin Mohammed Al Nahyan; Board Member – Al Falah Exchange, UAE; and Board Member – Bank Al Falah, Pakistan.
Board Director. **Member of the Risk and Credit Committee.** **Member of the Nomination, Compensation and HR Committee**	**64**	***Mr. Jean-Paul Pierre Villain*** Head – ADIA Strategy Committee; Head – Strategy Unit at H.H. the Managing Director's Office at ADIA; Member of the Investment Committee – Abu Dhabi Fund for Retirement and Benefits; and Governor – British Community School, Abu Dhabi.
Board Director. **Member of the Audit and Compliance Committee.** **Member of the Nomination, Compensation and HR Committee.**	**38**	***Mr. Mohammed Ali Al Dhaheri*** Accounting and Financial Services – Abu Dhabi Investment Council; and Board Member – Abu Dhabi Investment Company.
Board Director. **Chairman of the Corporate Governance Committee.** **Member of the Risk and Credit Committee.**	**35**	***Mr. Salem Mohammed Athaith Al Ameri*** Executive Director – Private Equity Department, Abu Dhabi Investment Council; and Board Member – Abu Dhabi Investment Company.

Position	Age	Name, background and other positions
Board Director. **Member of the Audit and Compliance Committee.**	**24**	***Shk. Sultan bin Suroor Al Dhahiri*** Chief Executive Officer – Al Dhaheri Group; Board Member – Abu Dhabi National Tourism and Hotels Company; and Board Member – Al Khazna Insurance Company.
Board Director. **Member of the Corporate Governance Committee.**	**47**	***Mr. Mohamed Esmaeel Al Fahim*** Board Member – Burooj Properties; Board Member – Abu Dhabi Islamic Financial Services; Board Member – Takaful; Board Member – Baniyas Investment; Board Member – General Authority of Islamic Affairs and Endowments; Board Member – Al Fajer Investment; and Board Member – Green Crescent Insurance.
Board Director and Chief Executive Officer.	**41**	***Mr. Ala'a Eraiqat*** Board Member – Abu Dhabi National Hotels PJSC; Board Member – Gulf Capital PJSC; Director – Master Card Asia/Pacific, Middle East and Africa Regional Advisory Board; Member of Mubadala Infrastructure Partners Advisory Board; and Honorary Board Member – Al Ain Club.
Board Director. **Member of the Audit and Compliance Committee.** **Member of the Nomination, Compensation and HR Committee.**	**44**	***Mr. Khalid Deemas Al Suwaidi*** Chief Executive Officer – Das Holdings; Board Member – Takaful; Chairman – Manafa Outdoors; Chairman – United Tina; and Board Member – Al Dar Financial Securities.
Board Secretary.	**37**	***Mr Simon Copleston*** General Counsel and Board Secretary – Abu Dhabi Commercial Bank.

The business address of each member of the Board is P.O. Box 939, Abu Dhabi, United Arab Emirates.

Certain members of the Board, their families and companies of which they are principal owners, or of which they are employees, are customers of ADCB in the ordinary course of business. The transactions with these parties are made at arm's length and on substantially the same terms, including interest rates, as those prevailing at the same time for comparable transactions with unrelated parties.

Except as disclosed in the next paragraph, no member of the Board has any actual or potential conflict of interest between his duties to ADCB and his private interests and/or other duties.

Each of the directors of ADCB named in the table above entitled "Board of Directors" has outside interests in entities other than ADCB, including employment and/or directorships with third parties (as set out underneath their names in the table above). Given the wide scope of ADCB's operations, such entities have banking and/or other commercial relationships with ADCB. Some Board members also have personal banking relationships with ADCB. As the directors of ADCB are involved in ADCB's decision making process and have knowledge of ADCB's products and services, including the commercial terms thereof, a potential conflict of interest may arise. However, ADCB has established robust internal procedures to deal with any such potential conflict, including the relevant director being excluded from voting at board meetings on issues which relate to the relevant employer's and/or other connected entity's dealings with ADCB.

Under the Commercial Companies Law, all Directors are liable to ADCB, its shareholders and third parties for any acts of fraud, abuse of powers, violation of laws, violation of its articles of association or for mismanagement.

The table below sets out the number of shares held by each Director as at 30 June 2010:

Director	30 June 2010
Mr. Eissa Mohamed Ghanem Al Suwaidi	0
Mr. Mohammad Sultan Ghannoum Al Hameli	0
Mr. Ala'a Eraiqat	1,166,348*
Shk. Sultan bin Suroor Al Dhahiri	10,000
Mr. Abdulla Khalil Al Mutawa	2,347,280
Mr. Jean-Paul Pierre Villain	6,012
Mr. Mohammed Ali Al Dhaheri	0
Mr. Mohamed Darwish Al Khoori	837,325
Mr. Khalid Deemas Al Suwaidi	0
Mr. Salem Mohammed Athaith Al Ameri	0
Mr. Mohamed Esmaeel Al Fahim	0

* These are restricted units awarded to Mr. Ala'a Eraiqat under ADCB's long term incentive plan. Of these units, 476,693 will become unrestricted on 31 December 2010 and 689,655 will become unrestricted on 31 December 2012, if Mr. Ala'a Eraiqat does not resign before these dates.

Executive management

As of the date of this Base Prospectus, the executive management of ADCB includes:

Position	Name
Chief Executive Officer	Ala'a Eraiqat
Chief Financial Officer	Deepak Khullar
Chief Risk Officer	Kishore Rao
Head – Treasury and Investments	Kevin Taylor
Head – Wholesale Banking	Colin Fraser
Head – Consumer Banking	Arup Mukhopadhyay
Head – Operations and IT	Thierry Bardury
Head – Government Relations	Abdulla Al Suwaidi
Head – Human Resources	Sultan Al Mahmoud
Head – Internal Audit	Abdirizak Ali
General Counsel and Board Secretary	Simon Copleston

The business address of each member of the executive management is P.O. Box 939, Abu Dhabi, United Arab Emirates.

No member of the executive management of ADCB has any actual or potential conflict of interest between his duties to ADCB and his private interests and/or other duties.

Board committees

The Board has established four board committees: the audit and compliance committee, the corporate governance committee, the nomination, compensation and HR committee, and the risk and credit committee, each of which plays an important role in governing ADCB's operations and in establishing and coordinating the policies of ADCB.

Board audit and compliance committee

The board audit and compliance committee ("**BACC**") (which currently consists of four non-executive directors, one of whom is the committee chairman) is primarily responsible for: (i) managing ADCB's internal audit function; (ii) overseeing the preparation of ADCB's financial statements; (iii) ensuring the suitability and independence of auditors (internal and external); and (iv) monitoring internal controls over financial reporting as well as managing compliance with relevant legal and regulatory requirements. The BACC plays a predominantly advisory role, reporting its recommendations to the Board for final approval. However, in certain limited circumstances, decisions may be taken by the audit and compliance committee, which are binding on the Board (for example, it may approve the terms of engagement of the external auditor without Board approval).

The BACC holds a minimum of four meetings per year and provides regular reports to the Board.

Board corporate governance committee

ADCB's corporate governance committee (which currently consists of four non-executive directors, one of whom is the committee chairman) is responsible for overseeing the development and implementation of ADCB's corporate governance strategy and action plan, including the development of corporate governance procedures and best practices within ADCB, compliance with regulatory requirements relating to corporate governance, and public reporting on corporate governance matters. The corporate governance committee's primary focus during 2008, 2009 and 2010 has been on (i) the adoption and monitoring of the implementation of ADCB's corporate governance plan; (ii) the appointment of ADCB officers with responsibility for corporate governance; (iii) the reorganisation of ADCB's board committees and terms of reference; (iv) the review of the Board's composition, selection and appointment, qualification requirements, remuneration and loans; (v) the review and amendment of ADCB's articles of association; (vi) the publication of corporate governance information; (vii) the establishment of investor relations and compliance functions; (viii) making certain recommendations to the Board and board committees; and (ix) the evaluation of directors' performance and ongoing professional development.

The corporate governance committee plays an advisory role, reporting its recommendations to the Board for final approval.

Board nomination, compensation and HR committee

The nomination, compensation and HR committee (which currently consists of four non-executive directors, one of whom is the committee chairman)) is responsible for (i) ensuring the appropriate composition of the Board; (ii) the selection and appointment of Directors; (iii) the orientation and training sessions for new and existing Directors; (iv) the succession planning for Board members and senior management; (v) the performance assessment of the Board, individual Directors and senior management; (vi) the development, application and review of human resources and training policies; (vii) determining ADCB's requirements for executive managers and employees; (viii) the selection and appointment of senior management; (ix) remuneration policies for management and the Board, and ADCB's remuneration and incentive plans; (x) ADCB's public reporting of remuneration matters; and (xi) ensuring independent Directors remain independent on a continuous basis.

In determining the composition of the Board, the nomination, compensation and HR committee considers the knowledge, skills and experience which are anticipated to be required by Board members. No Director may participate in any decision regarding his own appointment or remuneration.

The nomination, compensation and HR committee is authorised to take certain appointment and remuneration decisions which may bind the Board. In all other cases, recommendations are made to the Board for final approval.

Board risk and credit committee

The board risk and credit committee ("**BRCC**") (which currently consists of five non-executive directors, one of whom is the committee chairman) is responsible for credit decisions involving up to an aggregate of 7 per cent. of ADCB's capital per single borrower or group of related borrowers and, in all other cases, making recommendations to the Board for approval. It is also responsible for overseeing (i) the development of risk management tools; (ii) the development and implementation of risk management strategies and limits; (iii)compliance with regulatory requirements relating to risk management; and (iv) public reporting on risk management matters.

Management committees

Day-to-day management is coordinated by the Management Executive Committee (the "**MEC**"), which oversees all other management committees and working groups, including the management risk and credit committee (the "**MRCC**"), the senior management committee, the information technology steering committee, the ALCO and the management recoveries committee ("**MRC**"). The MEC has delegated certain responsibilities to its reporting committees.

Management executive committee

The MEC is the highest management level authority overseeing matters relating to corporate organisation, strategy recommendations, finance and operations. All management committees report to the MEC, which has full authority to review and reorganise the composition and terms of reference of the management committees and working groups.

The MEC is composed of key members of management, whose appointments are approved by the nomination, compensation and HR committee. The members of the MEC include the CEO (who serves as Chairman of the MEC), the chief financial officer ("**CFO**"), the chief risk officer ("**CRO**") and the heads of wholesale banking, treasury and investments, human resources, consumer banking and wealth management. Permanent invitees include the General Counsel and Board Secretary and the Managing Directors of Abu Dhabi Commercial Properties LLC and Abu Dhabi Commercial Engineering Services LLC. The MEC meets weekly and reports to the Board.

The responsibilities of MEC include:

- establishing the organisation structure for management and management committees;
- implementing strategy set by the Board and recommending strategy and policy decisions;
- recommending ADCB's annual budget;
- approving key performance indicators for each business line;
- reviewing periodic performance reports;
- executing proposals from the Board (including proposals regarding any increase or decrease to ADCB's capital);
- approving expenditures within the guidelines of ADCB's annual budget, expenditures not captured by the annual budget up to AED 10 million during a quarter and other expenditures within certain delegated limits set by the Board;
- approving the establishment or sale of branches, agencies, joint ventures and subsidiaries and appointments of directors to subsidiaries;
- approving debt-funding issues, up to certain delegated limits set by the Board, treasury investments and related hedging transactions;
- approving recovery settlements relating to NPLs up to certain limits set by the Board;
- approving ADCB's policies, excluding those falling within the Board's responsibility; and
- approving credit transactions up to certain limits set by the Board.

Management risk and credit committee

The MRCC is principally responsible for pre-screening and making recommendations to the Board or BRCC, as appropriate, on all risk and credit exposures.

Assets and liabilities committee

The ALCO is responsible for reviewing and monitoring all major investments and strategic commitments and developing policies relating to the management of all assets and liabilities (such as balance sheet structuring, funding, pricing, hedging, investing and the setting and monitoring of liquidity ratios).

The ALCO seeks to manage assets and liabilities in order to enhance profitability and protect ADCB from any adverse consequences that may result from extreme changes in market conditions and other financial risks.

The ALCO's primary functions include (i) managing ADCB's wholesale debt lending and deposit liabilities; (ii) the formulation and implementation of market risk and liquidity risk policies and strategies for addressing market and liquidity risks; (iii) ensuring market risk and liquidity risk are identified, assessed mitigated and controlled, and monitored; (iv) the formulation and implementation of balance sheet structure policies and strategies for addressing issues relating to balance sheet structure and (v) purchase of assets within ADCB's treasury investment portfolio.

In carrying out these key functions, the ALCO:

- reviews ADCB's financial performance, economic reports and forecasts;
- reviews ADCB's balance sheet structure and evaluates the risk exposure and assesses its potential impact on the income statement;
- reviews interest rate trends, yields, cost of funds and margins;
- makes recommendations on strategic directions leading to changes in balance sheet composition to achieve a desired structure including: (i) asset allocation strategies; (ii) buying and selling of assets; (iii) changing liability structure and mix; (iv) balance sheet growth, structure and maturity; and (iv) hedging;
- formulates policy guidelines on limits of exposure to liquidity and market risk (such as Value at Risk, liquidity ratios, large depositors, sources of funds, investment and other assets);
- reviews base lending rate or reference rate and its guidelines;
- reviews transfer pricing between business units and sets the overall direction and approval criteria for purchase and sale of investments; and
- classifies investments into held-for-trading, available-for-sale and held to maturity.

Management recoveries committee

The MRC is responsible for reviewing and approving settlements relating to certain NPLs. A matter is forwarded to the MRC after the Remedial Risk Department has attempted to recover the amount outstanding from the borrower and has either been unable to recover such amount or has provisionally agreed with the borrower to restructure the loan. See "*Risk Management – Collection procedures*".

Information technology steering committee

The information technology steering committee is primarily responsible for supporting and advising the MEC on matters and projects relating to IT and information security.

The information technology steering committee oversees:

- determining ADCB's overall IT objectives and goals;
- providing a common platform for mutual understanding of business and technology requirements;
- assessing competing IT projects, determining their priority and identifying any necessary manpower, financial and other resources;
- recommending to the MEC for its approval priority IT projects for ADCB;
- overseeing and implementing IT projects approved by the MEC; and
- monitoring any approved capital expenditure investments in IT hardware and software, in keeping with ADCB's annual budget.

Senior management committee

The senior management committee acts as a management forum regarding a wide range of issues, including ADCB's HR policies, management strategy, projects and dissemination of information.

In addition to the foregoing standing management committees, from time to time the MEC establishes working groups tasked to handle specific issues or areas of focus. As at the date of this Base Proscpectus, the MEC had established the following working groups: compliance, corporate governance, operational risk, insurances and liabilities.

Other management functions

Audit arrangements

The external auditor is appointed annually by ADCB's shareholders. At the 2010 Annual General Meeting Deloitte & Touche was re-appointed as the external auditor of ADCB. The BACC's terms of reference and articles of association include measures to ensure the ongoing independence of ADCB's external auditor:

- no audit firm may be appointed for more than five consecutive years without shareholders' approval;

- no individual audit partner may be responsible for the audit for more than three consecutive years;

- the BACC will make recommendations on the rotation of the external audit firm, or of the partner of the firm in charge of ADCB's audit, to ensure the independence of the external auditor; and

- the external auditor may not, without the consent of the BACC, carry out any additional work for ADCB which is not part of the audit programme.

The scope of an audit is agreed between the BACC and the auditor. The external audit partner attends meetings of the BACC and attends the Board meetings when needed. The BACC also periodically meets separately with ADCB's internal auditors and the auditor in the absence of management.

Internal controls

ADCB's internal controls over financial reporting comprise processes designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with applicable accounting principles. ADCB's internal controls include policies and procedures that (i) are designed to ensure the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADCB; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles, and that receipts and expenditures of ADCB are being made only in accordance with authorisations of management and directors of ADCB; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of ADCB's assets.

Notwithstanding the above, internal controls are subject to inherent limitations. Please see "*Risk Factors – ADCB's risk management and internal controls may leave it exposed to unidentified or unanticipated risks, which could result in material losses*".

Disclosure standards

ADCB has created a website in order to provide information to stakeholders. ADCB's web address is www.adcb.com. Information on ADCB's website does not form part of this Base Prospectus.

RISK MANAGEMENT

In common with other financial institutions, ADCB faces a range of risks in its business and operations including: (i) credit risk; (ii) market risk (including interest rate risk, currency risk and equity price risk); (iii) liquidity risk; and (iv) legal, reputational and operational risk.

Efficient and timely management of the risks involved in ADCB's activities is critical to its financial soundness and profitability. Risk management involves identifying, measuring, monitoring and managing risks on a regular basis. The objective of risk management is to protect ADCB's asset values and income streams in order to protect the interests of its shareholders and external fund providers, increase shareholder value and achieve a return on equity that is commensurate with the risks assumed. The risk management framework is integral to the operations and culture of ADCB. Risks are proactively managed within the defined risk framework of ADCB.

To achieve its risk management objectives, ADCB's senior management (including the CRO) and internal audit department routinely review the risk management systems implemented by ADCB.

ADCB's key quantitative risk policies include:

- maintaining or exceeding the minimum levels of capital adequacy calculated in accordance with the rules and regulations concerning capital adequacy standards of the Central Bank issued as per the Circular No. 13/93 dated 14 April 1993;

- complying with the recommended risk management standards of the Basel II Accord, as amended, with respect to capital allocations, internal review and market discipline to minimise credit risk, market risk, operational risk, liquidity risk, interest risk and other risks;

- establishing and implementing maximum size limits for retail, commercial and other lending products, securities underwriting and investments aligning with local regulatory requirements, all of which are linked to the size of total assets and shareholders' equity (size limits are reviewed on an at least annual basis and more regularly for the ones on the "watch" lists);

- restricting certain economic sector, country and single obligor exposure to specified percentages of capital;

- limiting the tenor and size of certain credit products; and

- limiting maximum overnight FX exposures.

Quantitative and qualitative disclosures about risk

In common with other financial institutions, ADCB faces a range of risks in its business and operations including (i) credit risk; (ii) funding and liquidity risk; (iii) interest rate risk; (iv) market risk (including currency risk and equity price risk); and (v) legal, reputational and operational risk.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation on maturity or in a timely manner causing the other party to incur a financial loss. Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be affected similarly by changes in economic, political or other conditions. Concentration risk may also arise as a result of large exposures to individuals or a group of related counterparties. Concentrations of credit risk indicate the relative sensitivity of ADCB's performance to developments affecting a particular industry or geographic location.

ADCB's primary exposure to credit risk arises through its loans and advances to customers. ADCB is also exposed to credit risk on various other financial assets, including derivative instruments and debt investments. ADCB, like other financial institutions, undertakes short-term lending in the inter-bank market. ADCB has procedures in place to manage the risks involved with inter-bank exposure. Lending limits are assigned to each financial institution based on internal assessments, external credit ratings and country ratings.

ADCB regularly reviews and monitors compliance with lending limits to individual financial institutions and country limits. ADCB manages credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, continually assessing the creditworthiness of counter-parties, monitoring lending activities to manage concentrations of risks with individuals or groups of customers or industries, and by obtaining security when appropriate. In addition to monitoring credit limits, ADCB manages the credit exposure relating to its derivatives trading activities by entering into master ISDA and related arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure.

ADCB's credit group is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives. See "*Governance and Management*".

For further information regarding ADCB's credit risk, see "*Risk Factors – Factors that may affect ADCB's ability to fulfil its obligations under Notes issued under the Programme as Issuer or Guarantor – ADCB's business, results of operations, financial condition and prospects have been affected by credit risks and will likely continue to be affected by credit risks if economic conditions do not improve*".

Concentration of credit risk

ADCB conducts business with a range of Government-controlled and Government-related entities, members of the ruling family of Abu Dhabi and other HNWIs. ADCB's ten largest exposures constituted approximately 34 per cent. of ADCB's total funded and unfunded exposures as of the date of this Base Prospectus. Approximately half of this exposure is to members of the ruling family or entities controlled by them. All loans and other funded or unfunded exposures are approved based on commercial terms and all loans are substantially covered by collateral.

Analysis of performing and non-performing loans

In accordance with Basel II requirements, all loans are classified as non-performing loans once they are 90 days overdue. Retail loans (other than mortgages) are written off once they are 180 days overdue. For non retail loans, the policy is to write off a loan after it has been deemed irrecoverable and is not linked to a time line.

The table below shows a breakdown of ADCB's loan portfolio as at 30 June 2010 by grade category (AED million):

Business Group	**I Performing**	**II PDNI***	**III Non-performing**	**IV Doubtful**	**V Loss**	**Total**
Wholesale Banking Group	45,116	12,235	3,557	180	53	61,141
Commercial Banking Group	54,863	4,970	2,669	203	72	62,777
Total	**99,979**	**17,205**	**6,226**	**383**	**125**	**123,918**
Less Provision for Doubtful Debts						**(5,161)**
Loans, net of provisions						**118,757**

* Past due but not impaired.

Derivatives

ADCB continuously monitors limits on net open derivative positions (i.e. the difference between purchase and sale contracts) with respect to its clients, by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to ADCB (i.e. positive fair value of assets). This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where ADCB requires margin deposits from counterparties. Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks arising from ADCB's market transactions on any single day.

Funding and liquidity risk

Funding and liquidity risk is the risk that ADCB will be unable to meet the payment obligations associated with its financial liabilities when they fall due, replace funds when they are withdrawn and meet obligations to repay depositors or to fulfil commitments to lend. Funding and liquidity risk are caused by institution-specific or market disruptions. To reduce this risk, ADCB has elected to use diversified funding sources and to manage assets with the objective of maximising liquidity.

For further information regarding ADCB's liquidity risk, see "*Risk Factors – Factors that may affect ADCB's ability to fulfil its obligations under Notes issued under the Programme as Issuer or Guarantor – ADCB's business, results of operations, financial condition and prospects have been affected by liquidity risks and will likely continue to be affected by liquidity risks if economic conditions do not improve*".

Liquidity risk management process

The ALCO sets and monitors liquidity ratios and regularly revises and updates ADCB's liquidity management policies and seeks to ensure that ADCB is in a position to meet its obligations as they fall due.

ADCB's liquidity management process, as carried out within ADCB and monitored by ADCB's Treasury, includes:

- day-to-day funding, including monitoring of future cash flows to ensure that requirements can be met;
- replenishment of deposits as they mature and availability of funds for draw-down by customers;
- maintaining a presence in global money markets to enable access to funding from this source when needed;
- maintaining a portfolio of marketable assets that can be liquidated as protection against any unforeseen cash flow shortfalls;
- monitoring liquidity ratios against internal and regulatory targets and requirements;
- maintaining a wide diversity of funding sources;
- managing concentration risk and the maturity profile of debt obligations; and
- securing and monitoring undrawn standing facilities.

Funding approach

Sources of liquidity are regularly monitored to maintain a wide diversification by counterparty, currency, tenor and product.

The analysis of maturities of assets and liabilities is conducted on a daily basis to determine ADCB's on-going funding needs and to ensure adequate liquidity is maintained across the defined time horizon.

For further information regarding the maturity profile of ADCB's assets and liabilities, see "*Selected Financial Information of ADCB*".

Interest rate risk

Interest rate risk arises from interest rate sensitive financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of these financial instruments or the related income. Interest rates sensitivity risk positions in ADCB's trading and loan books are managed by ADCB's treasury, which uses derivative instruments to manage the overall position arising from ADCB's interest bearing financial instruments.

Financial assets and liabilities exposed to cash flow interest rate risk are financial assets and financial liabilities with a floating interest rate. A significant portion of ADCB's loans and advances, due from banks, customer deposits, due to banks, short- and medium-term borrowings and mandatory convertible securities fall under this category.

However, as most of ADCB's financial assets and liabilities are floating rate, deposits and loans generally re-price simultaneously, providing a natural hedge which reduces interest rate exposure. Moreover, the majority of ADCB's assets and liabilities re-price within one year, thereby further limiting interest rate risk. Furthermore, as a general practice, ADCB typically swaps any fixed rate financial assets and liabilities it holds to floating rates of interest. A significant portion of ADCB's loans and advances, due from banks, customer deposits, due to banks, and short- and medium-term borrowings fall under this category.

ADCB uses simulation modelling tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by the ALCO. The scenarios used for interest rate risk assess the changes in the portfolio or funding value which would result from interest rate shocks. The scenarios simulate results arising from steepening, flattening and twisting interest rate scenarios. Financial assets that are not subject to any fair value or cash flow interest rate risk mainly comprise investments in equity instruments. The effective interest rate (effective yield) of a monetary financial instrument is generally more indicative of the instrument's yield than its coupon, as it is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The off-balance sheet gap represents the net notional amounts of the off-balance sheet financial instruments, such as interest rate swaps which are used to manage the interest rate risk.

Market risk

Market risk is the risk that ADCB's income and/or the value of a financial instrument will fluctuate because of changes in market factors such as interest rates, foreign exchange rates, commodity rates and market prices of equity.

ADCB is exposed to market risk with respect to its investments in balance sheet securities to the extent it has not hedged such risks through derivatives positions. ADCB aims to limit market risk by maintaining a diversified portfolio and by monitoring developments in the market. In addition, ADCB actively monitors the key risk factors that affect stock and market movements, including an analysis of the operational and financial performance of the entities in which it invests.

ADCB has set market risk limits based on statistical (including VaR) and non-statistical risk metrics and notional limits which are closely monitored by ADCB's risk control function, and which are reported periodically to senior management and are reviewed monthly by the ALCO. ADCB's operations also expose it to risks arising from changes in foreign currency exchange rates and interest rates. ADCB enters into a variety of derivative financial instruments to hedge and manage its exposure to interest rate and foreign exchange risk. ADCB uses various risk metrics, including non-statistical risk measures and sensitivity analyses, to quantify market risk. Non-statistical risk measures, other than scenario stress testing, include net open positions, basis point values, option sensitivities, market values and tenor limits. ADCB uses non-statistical, scenario-based risk metrics to monitor and control market risk on a day-to-day basis.

For further information regarding ADCB's market risk, see "*Risk Factors – ADCB's business, results of operations, financial condition and prospects have been affected by market risks and will likely continue to be affected by market risks if economic conditions do not improve*".

Foreign exchange risk, measurement and monitoring

ADCB's financial position and cash flows are sensitive to both current and expected foreign currency exchange rates. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily.

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, its issuer, or factors affecting all securities traded in the market. ADCB is exposed to market risk with respect to its investments in marketable securities. ADCB aims to limit market risks by maintaining and monitoring activities with established and approved limits and by the continuous monitoring of developments in the market.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from ADCB's investment portfolio. In addition, ADCB actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

Management of market risk

The Board approves risk limits based on sensitivity analysis and notional limits which are closely monitored daily by the Risk Management Division, reported immediately to senior management and reviewed monthly by the ALCO. ADCB separates its exposure to market risk between trading and non-trading (available for sale) portfolios. Trading portfolios are held by the Treasury and include positions arising from market making and proprietary position taking. Non-trading risk includes securities and other assets held for longer-term investments used to manage ADCB's asset/liability exposures.

Market risk is identified, measured, monitored, and controlled by an independent risk control function. Market risk management aims to reduce volatility in operating performance. Market risk management is overseen by the CRO, who reports to the CEO and the BRCC and performs the following primary functions:

- establishment of a comprehensive market risk policy framework;
- independent measurement, monitoring and control of market risk; and
- setting up, approval and monitoring of limits.

Derivatives

In the ordinary course of its business, ADCB enters into a range of transactions that involve derivative instruments. ADCB provides its customers and counterparties with structured transactions to reduce their risk profile in a particular area of risk. Hedging positions accumulated from such activities are typically offset through transactions with other market counterparties. ADCB manages the risks involved in these activities through appropriate limits and stop loss parameters. These limits vary by product and maturity. ADCB also uses derivative instruments for hedging purposes as part of its asset and liability management in order to reduce its exposure to fluctuations in foreign exchange, interest rates and other risks. ADCB uses forward foreign exchange contracts, cross currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. ADCB also uses interest rate swaps to hedge against the fair value risks arising on certain fixed rate financial instruments.

Legal risk

Legal risk is the risk of losses occurring due to (i) non-compliance with laws or regulations; or (ii) legal or regulatory action that invalidates contractual protections. ADCB seeks to mitigate this risk through the use of experienced internal and external lawyers to review documentation and provide legal advice in relation to such documentation when appropriate. There is also an independent compliance department established to ensure compliance with the UAE banking laws and compliance with laws and regulations in all other jurisdictions under which ADCB and its subsidiaries operate.

Reputational risk

Reputational risk is the risk of loss occurring due to a decrease in the value of the ADCB brand. ADCB's brand and reputation could be adversely affected by a number of factors, including, but not limited to substandard work product, higher transactional costs than competitors, major adverse credit events, negative publicity in local and international press, legal disputes or lower than expected financial results. ADCB seeks to mitigate this risk through internal risk management policies and procedures and active use of the media and advertising.

Operational risk

Operational risk is the risk of loss arising from system failure, inadequate or failed internal processes, human error or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications or lead to financial loss. ADCB cannot eliminate all operational risks, but ADCB aims to manage risks through an operational risk identification and management framework which includes identification assessment, monitoring, reporting, controlling/mitigating and staff awareness. The framework also includes the use of tools such as segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, internal audits, key risk indicators and data loss management. See "*Risk factors – ADCB's business, results of operations, financial condition and prospects have been affected by market risks and will likely continue to be affected by market risks if economic conditions do not improve – ADCB's business may be adversely affected if there is any disturbance to its operational systems or a loss of business continuing" and "ADCB is exposed to the risk of loss as a result of employee misrepresentation, misconduct and improper practice*".

Decision making

ADCB's governance structure is headed by the Board, which has overall responsibility for risk management. ADCB has a number of Board committees and management committees that, amongst their other responsibilities, oversee and monitor the day-to-day risk management of ADCB. These committees are responsible for the overall approval and implementation of ADCB's risk management policies, while the formulation, monitoring and reporting of such policies and any exceptions thereto or any required corrective actions is the primary responsibility of the credit and risk division that is headed by the CRO.

Managing risk is a process operated independently of the business units of ADCB. ADCB aims to reinforce a strong risk management culture through a comprehensive set of processes that are designed to effectively identify, measure, monitor, report, mitigate and control risk exposures.

Risk governance at ADCB is based on the following four layers of defense:

- Involvement of the Board and sub-committees under the Board such as the BRCC;
- Senior management level committees for risk management such as the MRCC and MRC;
- Dedicated risk management group, which is the credit and risk group, that independently evaluates the control systems within ADCB; and
- Independent assurance provided by internal and external audit to provide an important feedback on the effectiveness of this process.

The Board evaluates risk in co-ordination with ADCB's Board committees and management committees. For further information regarding ADCB's Board committees and management committees, see "*Governance and Management – Board Committees" and "Governance and Management – Management committees*".

Execution

Execution of ADCB's risk management system is co-ordinated by the credit and risk group which is headed by the CRO. The credit and risk group is supported by the following sub groups: credit risk management, operational risk management, market risk management, consumer risk management, credit, remedial risk management and group compliance. The Internal Audit department also oversees and reviews ADCB's risk management practices, internal audit department and the IT and operations division. These groups operate under the supervision of the Board of Directors and its committees, the CEO, the CRO and the MEC.

Chief risk officer

The CRO is responsible for overall implementation of the risk objectives of ADCB. His responsibilities are to:

- identify and plug gaps in ADCB's risk infrastructure/framework and formulate plans to address the same;
- establish and nurture the independence of the risk function;
- guide and influence provisioning policies, risk strategy and credit/risk process changes;
- introduce process, policy and approach changes to energise risk awareness amongst front office business personnel and decision makers;
- continually tune the risk organisation in line with market best practices;
- manage ADCB's portfolio and associated risks to international best practice; and
- establish a clear risk culture encompassing all areas of risk.

The CRO was appointed by ADCB in July 2009 in order to centralise ADCB's risk management and reports to the Board and the CEO. The CRO directly oversees the credit group, the remedial risk group, the compliance department, the consumer risk management group and the market risk group, the credit risk group and the operational risk group. The CRO is responsible for reviewing ADCB's policies and procedures for managing exposure to credit, market and liquidity risk, including risk limits for both market and credit risk, value at risk, liquidity models and other relevant models.

Treasury division

Alongside its profit-generating and treasury management activities, the treasury division is responsible for the day-to-day management of interest rate, liquidity and currency risk, ensuring a minimum percentage is maintained in liquid assets and diversifying ADCB's funding sources. The treasury division reviews any liquidity gaps, ADCB's funding policies, availability of contingent liquidity and projected future cash flows associated with significant investments/divestures and discusses these with the ALCO. The division reports directly to the CEO and works closely with the market risk department.

Credit department

The credit department is responsible for reviewing wholesale credit applications and oversees ADCB's wholesale credit portfolio. The credit department monitors the loans it has extended to wholesale borrowers in order to calculate potential losses and make provisions accordingly, classify loans as NPLs as appropriate, refer certain NPLs to the remedial risk department and generally control ADCB's exposure to credit risk. In addition, the credit department periodically reviews ADCB's data collection procedures, restructuring methodologies, information management and credit evaluation practices. In addition the department oversees the credit administration unit and documentation unit as well.

Legal department

Alongside its day-to-day activities of providing legal assistance and advice to ADCB, the General Counsel and his team are responsible for managing ADCB's legal risk by reviewing, monitoring and interpreting applicable legal and regulatory issues in the UAE and other relevant overseas jurisdictions.

Remedial risk department

The remedial risk department attempts to recover outstanding loans in excess of AED 1 million after such loans are classified as NPLs and referred to the remedial risk department by the credit department. If the remedial risk department's collection attempts are unsuccessful, it may require the borrower to provide further collateral, initiate a legal action to recover the outstanding amount or restructure the terms of the loan and forward such terms to the MRC for its approval.

Compliance department

The compliance department assesses the adequacy of and compliance with internal procedures at all levels throughout ADCB. The department applies a risk-based approach that ranks ADCB's operations according to the likelihood and magnitude of potential losses for ADCB. The head of the department reports directly to the CRO.

Consumer risk management department

The consumer risk management department is responsible for overseeing the approval and verification of consumer credit merchant authorisation, collections, risk mitigation, repossession and foreclosure management and fraud. The consumer risk management department is also responsible for reviewing key performance and key risk indicators, changes in the economic environment, feedback on fraud and collections, customer service issues and competition.

Market risk department

The market risk department is responsible for identifying, measuring, monitoring and controlling risks associated with on and off balance-sheet positions held by ADCB. The market risk department aims to reduce income performance volatility and to make ADCB's market risk profile transparent to senior management, the Board and regulators.

Credit risk department

The credit risk department is responsible for formulating the credit strategy and policy in terms of risk measurement and aggregation techniques, prudential requirements, risk assessment and review, reporting requirements, risk grading, product and documentation guidelines. The department is also responsible for portfolio monitoring and ensuring adequate risk systems support is in place. This department is the central co-ordination point for regulatory risk changes, liaison with external risk stakeholders such as rating agencies, for spearheading Basel II and similar initiatives and for acting as the business partner in the implementation of risk systems.

Operational risk department

The operational risk department is responsible for the identification, measurement, monitoring, control and reporting of operational risks throughout ADCB. This is the group support function responsible for rolling out and implementing the operational risk framework throughout ADCB, recording loss data, conducting risk self assessment workshops, identifying and tracking key risk indicators and developing action plans to plug identified operational risk gaps.

Internal audit department

The internal audit department (the "**IAD**") was established to provide an independent, objective assurance and consulting function. The IAD aims to apply a systematic and disciplined approach to evaluating and improving the effectiveness of ADCB's risk management, control and governance processes. The IAD reports directly to the BACC. The IAD consists of a team of more than 32 auditors, whose tasks are, among other things, to evaluate the quality of ADCB's lending portfolio, controls in operational processes and the integrity of ADCB's information systems and databases. The IAD's auditors, alongside the compliance department, also ensure that transactions undertaken by ADCB are conducted in compliance with applicable legal and regulatory requirements, and in accordance with ADCB's internal procedures, thereby minimising the risk of fraudulent, improper or illegal practices.

In carrying out their audit activities and responsibilities, internal auditors have unrestricted access to all of ADCB's records (either manual or electronic), assets, physical properties and personnel. The IAD performs its function in accordance with a risk-based audit methodology. Although all of ADCB's units are audited, the frequency of internal audits carried out with respect to each of ADCB's units depends on the inherent risk of that unit and its related control risk evaluation. All audits are conducted in accordance with the annual audit plan, which is approved by the BACC.

IT & operations department

The IT and operations department is responsible for the implementation, maintenance and control of all of ADCB's IT and operating systems, including risk management systems. For more information about the department, see "*Business – Information technology*".

Credit approval procedures

Overview

ADCB requires credit approvals in compliance with the Board – approved credit procedures for both consumer and wholesale loans. As the UAE's central credit bureaus are at their early stages, this function is independently managed by each UAE bank, subject to certain limited blacklists maintained by the Central Bank. ADCB's credit approval procedures are closely monitored by the Board of Directors through the BRCC and by senior management through the MRCC. ADCB's credit group and consumer credit risk group are responsible for the development and implementation of ADCB's credit approval procedures in conjunction with the BRCC and the MRCC as well as the development of ADCB's central credit information database.

ADCB applies different credit limits and approval criteria depending on the types of loans, customers and industry sectors. The approvals are made at various levels of the organisation, ranging from the Board of Directors, the BRCC under the Board supervision, the MRCC upto a credit officer in the consumer risk management division for approval of retail loans, in each case within ADCB's established credit limits.

Wholesale and HNWI loan approval procedures

For wholesale and HNWI loans, the Board of Directors is responsible for approving all credit commitments in excess of 7 per cent. of ADCB's capital base. The BRCC, which is appointed by the Board, is mandated with approving credit commitments on behalf of ADCB over and above the management committee delegation and up to an aggregate level of 7 per cent. of ADCB's capital base per single borrower or group of related borrowers. The BRCC is comprised of five non-executive directors and several non voting members of the management team including the CEO, the CRO and the heads of credit and wholesale banking groups. The MRCC has delegation that is linked to the customer internal rating and is capped at the prudential limits established by ADCB for each customer rating. These ratings are internal ratings for customers given by ADCB to each customer based on ADCB's credit policy. The MRCC is comprised of the CEO, the CRO, the CFO, the heads of the credit division, consumer banking, wholesale banking, treasury, consumer risk, private accounts, business banking, operational risk, asset restructuring, market risk and remedial risk as well as the general counsel. The CRO has the right of escalation of any matter in this committee to the level of the BRCC should he feel the need to do so.

Wholesale and HNWI credit commitments that fall under the mandate of the MRCC are addressed by the credit group's "functional delegated lending authorities" approved by the MEC. Certain cases can be escalated to the MRCC/ BRCC based on the recommendation of the CEO, the CRO or the head of the credit division. Functional lending authorities are typically valid only in relation to temporary, one-off transactions and for established levels delegated by the MEC/MRCC. The CEO or the head of the credit division may also further sub-delegate "specific delegated lending authorities" that are generally limited to short-term commitments (i.e. a maximum of one year).

In addition to categorising wholesale and HNWI credit commitments by value, ADCB also divides its wholesale and HNWI credit commitments into eight main product categories: loans, trade finance, contract guarantees (such as performance bonds), financial commitments (such as financial guarantees), market variation (foreign exchange contracts, options and derivatives), settlement (foreign exchange and other delivery[1]), syndication and others. ADCB applies specific standards of review for each category

1 An example of "delivery" would be delivery of bonds or other securities under derivatives (such as credit default swaps) or other treasury deals, such as when the Bank executes a purchase order on behalf of a client for a bond or other listed security.

of credit commitment, which enables ADCB to examine both the credit risk of the borrower as well as ADCB's overall lending exposure per product category. The credit department also complies with product specific policy manuals, including manuals for ADCB's asset based finance, commercial vehicle financing and real estate and property development finance. Analysing applications by product category also allows ADCB to respond to market developments. This approach allows the credit department to apply different credit approval procedures of ADCB to different clients as required.

New wholesale and HNWI borrowers are sourced through ADCB's sales channels including its relationship managers at wholesale and HNWI client divisions such as the business banking division, financial institutions division and strategic clients and government banking divisions as well as through ADCB's local branch network. Once a new customer has been identified, the relationship manager prepares a due diligence report on the client as part of the approval process. This due diligence report is based on ADCB's review of all relevant information and generally includes: (i) borrower information (including its legal constitution, ownership structure, organisational structure and financial strength); (ii) management (including a list of directors, key officers and their qualifications and affiliations); (iii) industry sector and market information; (iv) relationship with ADCB and other banks; (v) financial analysis of the borrower (turnover and profitability, EBITDA, return on equity and other financial ratios); (vi) sources of repayment; and (vii) appropriateness of certain covenants to be included in loan documents. ADCB also reviews the borrower's payment history with ADCB or other banks, competitive strengths, levels of collateral and other factors to reach its credit decision. This due diligence report is then validated independently by the credit group, which prepares a brief assessment of the reports summarising its salient features and recommendation for approval at the appropriate delegated lending authority.

The credit division also uses a risk grading and security categorisation system to assess and monitor the credit quality of credit applicants as well as existing borrowers. ADCB's risk grading system assigns 10 different grades ranging from Grade I A (government entities and large multinationals), Grade II (high risk customers requiring special attention and control) to Grade V (fully impaired). In accordance with ADCB's rating matrices, wholesale banking and HNWI clients are given credit scores based on payment history, financial situation, reputation, payment history with ADCB and other banks and other factors. The risk grading system attempts to grade a borrower based solely on the borrower's characteristics, and therefore does not take into consideration any security provided by the borrower. In addition to facilitating loan approval decision making, credit scores are also used by ADCB to set credit facility limits for specific clients. The credit quality of the client and the guarantor, the fair value of security interests and other relevant factors are all considered prior to setting the terms of the facility agreement (including the payment period, processing fee and interest rate).

It can take up to four weeks to approve new loans for wholesale clients from the submission of the initial application including all required documents. However, in practice approval times tend to be three days based upon service level agreements between the business and credit divisions. The credit division reviews the credit limits of its wholesale customers at least once each year.

Consumer credit approval procedures

ADCB has developed a comprehensive consumer credit policy and procedures manual, which establishes the retail banking division's overall risk management framework. The manual establishes operating policies and procedures relating to credit approval and verification, merchant authorisation, collections, risk mitigation, repossession and foreclosure management and fraud. The policy acts as a guideline for the formulation of individual product credit policy and procedures manuals. Additional policies and procedures manuals have been established with respect to the use of vendors, agents, dealers, brokers and other third parties or intermediaries that directly or indirectly impact credit risk, such as appraisers, realtors, brokers, servicing agents and collection agencies.

For retail loans, the Board has delegated its authority to the consumer risk management division. This division applies a tiered hierarchy of delegated approval authorities based on the value of the credit commitment sought. Such authorities are set out in authority matrices which must be approved by appropriate internal committees. Credit parameters for retail lending include age, qualifications and work experience, number of years in the UAE, number of dependants, income level, payment history and leverage ratio.

New retail borrowers are sourced through ADCB's sales channels, including direct sales agents and ADCB's retail branch network. The consumer risk management division makes credit decisions based on its review of the criteria described above but has no authority to approve a loan/loans exceeding AED 20 million to a single borrower or a group of borrowers. Acceptance of new retail clients typically depends on the size and type of loans as well as the type of customers. It can take only three or four days for personal loans and up to one week for mortgage loans to be approved from the submission of the initial application including all the required documents. Credits extended to retail customers are reviewed every 30 days as part of a general portfolio review.

Collection procedures

Consumer banking collection procedures

If a consumer banking group loan is in arrears, it is processed in accordance with standard operating procedures whereby the loan is considered to be default one day after it has become delinquent. The account is recorded as NPL after 90 days past due in line with Basel II requirements.

The collections and fraud unit, which reports directly to the head of consumer risk management, may also, in certain cases, approach a delinquent borrower in order to settle an outstanding loan or assess how an outstanding loan may be restructured. The collection and fraud unit will pursue all avenues available to collect the outstanding amount from a debtor and/or its guarantor by, among other methods, filing a claim with the court and starting a court proceeding to foreclose on relevant collateral.

Wholesale banking collection procedures

If a wholesale banking group loan is in arrears, the credit department is responsible for taking the initial steps to determine if the default can be remedied. If (i) the loan remains in default for more than 90 days (and is thereby recorded as a NPL as per Basel II requirements); (ii) negative information about the debtor surfaces, which makes collection of the outstanding loan unlikely; or (iii) the loan is in excess of AED 1 million, then the credit department refers the loan to the remedial risk department.

Initially, the remedial risk department contacts the borrower to discuss repayment of the amount of the loan outstanding. If the borrower is unable to repay the amount outstanding under the original terms of the loan, the remedial risk department may attempt to reschedule interest and principal payments or otherwise restructure the loan in conjunction with the debtor and its advisors. As part of such restructuring, the remedial risk department may request additional collateral, increase applicable interest rates or accelerate payment schedules. Restructuring plans negotiated by the remedial risk department with the borrower must be approved by the recoveries committees under the MEC, which is comprised of ADCB's management officers and chaired by the CRO. The recoveries committees can review and approve settlements relating to NPLs wherein the principal waiver does not exceed AED 25 million. Any amount in excess of this threshold must be approved by the MRCC, the BRCC or the Board itself, based upon threshold amounts. If the foregoing measures do not result in payment, the remedial risk department will pursue all other avenues available to collect the outstanding amount from the debtor and/or its guarantor by, among other methods, filing a claim with the court and starting a court proceeding to foreclose on relevant collateral. Under UAE federal law, however, creditors are prevented from foreclosing on a UAE national's primary residence.

CAPITAL MANAGEMENT

The Central Bank is ADCB's principal regulator and sets and monitors its capital requirements. ADCB's objective is to have an adequate capital base to enable it to pursue its strategic initiatives and to support the growth of its business (see "*Strategy*" above).

ADCB's senior management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank, monitors capital adequacy and the use of regulatory capital. Returns are filed with the Central Bank on a quarterly basis.

The Central Bank requires each bank to: (i) hold the minimum level of the regulatory capital; and (ii) maintain a ratio of total regulatory capital to risk-weighted assets, at or above a minimum of 12 per cent. (this is more than the 8 per cent. minimum ratio recommendation of the Basel II Accord).

Basel II was introduced in the UAE with effect 1 January 2008. ADCB has implemented a capital adequacy calculation system in accordance with Basel II but continues to provide the Central Bank with parallel Basel I and Basel II reports and will continue to do so until the Central Bank confirms otherwise. The parallel reporting scheme commenced on a quarterly basis in June 2007.

Details of ADCB's capital base and risk-weighted assets reported in accordance with Basel II as at 30 June 2010 and 31 December 2009 are set out in the table below:

	As at 31 December 2009	As at 30 June 2010
	(AED '000)	
Capital Base		
Tier 1 capital	19,393,447	18,854,933
Deductions from capital	(2,291,330)	(3,084,566)
Tier 2 capital	9,256,922	9,151,684
Deductions from capital	(2,291,329)	(3,084,565)
Tier 3 capital	–	–
Capital Base (I)	**24,067,710**	**21,837,486**
Risk-weighted assets		
Pillar 1		
Credit risk	126,294,138	128,889,653
Market risk	6,523,298	3,365,399
Operational risk	5,657,608	5,405,406
Total risk-weighted assets (II)	**138,475,044**	**137,660,458**
Capital Adequacy Ratio	**17.38%**	**15.86%**

ADCB currently calculates its capital ratio with respect to the Basel II reports in accordance with Basel II's standardised approach. ADCB is in the process of implementing a revised internal rating system for its corporate loan portfolio, which it expects will be fully implemented by July 2011.

In accordance with the Commercial Companies Law, ADCB transfers 10 per cent. of its annual profits to its statutory reserve and will continue to do so until such time as the reserve equals 50 per cent. of the issued share capital of ADCB. The reserve is not available for distribution.

Investments

The following table sets out details of the investments held by ADCB as at 30 June 2010 and 31 December in each of 2009 and 2008.

	As at 31 December		As at 30 June
	2008	2009	2010
		(AED millions)	
Available for sale investments			
Quoted investments	2,280.83	3,677.54	6,601.11
Allowance for impairment	(385.40)	(407.71)	(365.44)
Unquoted investments	1,552.57	1,121.28	973.69
Allowance for impairment	(25.21)	(18.37)	(179.68)
Total available for sale	**3,422.79**	**4,372.74**	**7,029.68**
Held for maturity	**–**	**–**	**–**
Total non trading investments	**3,422.79**	**4,372.74**	**7,029.68**

OVERVIEW OF THE UAE

The UAE is a federation of seven Emirates. Formerly known as the Trucial States, the Emirates were a British protectorate until they achieved independence in December 1971 and merged to form the federation of the United Arab Emirates. In common with other Arab states in the Gulf region, all of the Emirates have traditional monarchical governments which rule by Emiri decree with no democratic representation. Each Emirate reserves a high degree of political autonomy within the Federation, though in practice, real power is vested in the two richest Emirates, Abu Dhabi and Dubai. The other five Emirates are Sharjah, Ajman, Umm Al-Qaiwain, Fujairah and Ras Al-Khaimah.

The federation is governed by the Supreme Council of the Rulers of all the Emirates (the "**Supreme Council**"). This is the highest federal governing body and consists of the Rulers of the seven Emirates. The Supreme Council elects from its own membership the President and the Vice President (for renewable five year terms) of the UAE. The Supreme Council is vested with legislative as well as executive powers. It ratifies federal laws and decrees, plans general policy and approves the nomination, and accepts the resignation, of the Prime Minister of the UAE. The Supreme Council also has the power to relieve the Prime Minister of his post upon the recommendation of the President. HH Sheikh Zayed Bin Sultan Al-Nahyan, Ruler of Abu Dhabi, held the position of President from 1971 until his death in November 2004. Following his death, his son HH Sheikh Khalifa Bin Zayed Al Nahyan took over as Ruler of Abu Dhabi and has been elected as President of the UAE.

Abu Dhabi is the richest and largest of the seven Emirates and the city of Abu Dhabi is also the capital of the federation. The Emirate of Abu Dhabi owns and controls approximately 90 per cent. of the capital wealth of the UAE. Considering this financial wealth, it may, in cases of need, financially assist the rest of the federation. During his long presidency, the late HH Sheikh Zayed Bin Sultan Al-Nahyan oversaw massive investment in the infrastructure of the UAE which has transformed the country. Much of Abu Dhabi's wealth is now in overseas assets, built up from surplus hydrocarbon revenues by the Abu Dhabi Investment Authority ("**ADIA**"), the investment arm of the Abu Dhabi Government. In 2007, the Council, a sister institution to ADIA, was established for the purpose of investing government funds domestically and internationally. The management of official investment funds will be shared between ADIA and Council.

The UAE is the third largest economy in the Arab world after Saudi Arabia and Egypt and has been steadily growing over the last decade, faltering only twice, in 1998 and 2001, due to lower oil prices and OPEC-mandated production cuts. Although it has a more diversified economy than most of the other countries in the GCC region, its wealth is still largely based on oil and gas. According to OPEC data, as at 31 December 2009, the UAE has approximately 7.3 per cent. of proven global oil reserves (giving it the seventh largest oil reserves in the world). The UAE's oil reserves generated 36.8 per cent of the UAE's GDP in 2008 (according to the UAE Ministry of Economy) and approximately 35 per cent. of export earnings (including re-exports) in 2009 (source: UAE Central Bank).

Based on IMF data extracted from the World Economic Outlook (April 2010 and October 2010), real GDP growth in the UAE increased by 6.1 per cent. in 2007, 5.1 per cent. in 2008 and decreased by 2.5 per cent. in 2009. The UAE is expected to return to growth in 2010 by 2.4 per cent. and in 2011 by 3.2 per cent.

On 23 April 2010, Moody's reaffirmed the UAE's long-term credit raiding of Aa2 with a stable outlook. In its report, Moody's cited the fact that the federal government of the UAE is fully supported by the government of Abu Dhabi. The UAE is not rated by any of the other ratings agencies.

The population of the UAE, based on a census carried out in 2005, was approximately 3.8 million. However, it is estimated that there were over 300,000 non-nationals resident in the country who were not included in the census. This would make the total population of the UAE in 2005 more than 4 million and the National Bureau of Statistics has estimated the population of the UAE to be approximately 8.2 million in 2009. The current census for 2010 is underway.

The UAE enjoys good relations with other states in the GCC and regional neighbours, however, it is not immune to the political risks and volatility that have over-shadowed the region, particularly in the last couple of years. The economy remains heavily protected and nearly all utilities and most major industries are controlled by the state. However, tight restrictions placed on foreign investment are gradually being relaxed. For example, under current UAE law, foreigners are not permitted to have a controlling interest in UAE businesses and corporates. As a result of this rule, many of the Emirates have established trade and industry free zones as a means of attracting overseas investment and diversifying the economy. However, the draft UAE foreign investment law is reported to have been approved by the UAE Federal Supreme Legislative Committee, which will potentially allow for 100 per cent. foreign ownership in some industries. Despite the UAE's membership in the World Trade Organisation (the "**WTO**"), progress towards economic liberalisation has been slow, but trade agreements with Europe and the United States are being negotiated.

ECONOMY OF ABU DHABI

Introduction

With approximately 7 per cent. of the world's proven oil reserves of 1,337 billion barrels (according to OPEC at 31 December 2009) and approximately 3 per cent. of the world's natural gas reserves of 189,710 billion standard cubic metres (according to OPEC at 31 December 2009), Abu Dhabi's hydrocarbon wealth, coupled with a small population, gives it one of the highest GDP per capita ratios in the world. In recent years, Abu Dhabi has produced approximately 2.5 million barrels of crude oil (including condensates) per day ("**mb/d**") in line with OPEC quotas.

Since it first began exporting oil in the 1960s, Abu Dhabi has accumulated significant income from hydrocarbon exports much of which is invested by ADIA and the Council. Since 2004, the Government has also committed significant funds to Mubadala Development Company ("**MDC**"), which is wholly-owned by the Government and commenced operations in 2004 as the business development and investment company to lead the Government's economic development strategy. Income earned by ADIA, the Council and MDC and investments made or disposed of by them are not included in the GDP, balance of payments or public finance statistical information published by Abu Dhabi or the UAE.

Abu Dhabi's long-term economic development strategy (as articulated most recently in the 2030 Economic Vision) envisages a process of diversification away from reliance on crude oil exports and includes substantial new investment in both the oil and gas sector as well as in a range of other industries and sectors listed in the 2030 Economic Vision.

In addition to a number of ongoing hydrocarbon projects, Abu Dhabi also intends to expand existing facilities and initiate new projects in the petrochemical sector. The government, through MDC and other vehicles, is also making significant investments in international oil and gas assets, in the aluminium and steel industries, in the aerospace industry, in alternative energy development, in the development of healthcare and education facilities, in logistics, in financial and other services and in information, communications and technology, among other sectors.

As part of its drive to promote tourism and real estate, the Abu Dhabi Tourism Authority ("**ADTA**"), through its development arm, Tourism & Development Investment Corporation, is undertaking several large scale development projects. These projects will be served by an improved transport infrastructure, including an expanded airport. A new port is under construction and feasibility studies are being undertaken in relation to a possible rail link between Abu Dhabi and Dubai.

The Government has also partially privatised its water and electricity utility and has, through MDC, entered into a number of public private partnerships to construct new university facilities and intends to enter into further privatisation and public private partnerships in the future.

Gross domestic product

Abu Dhabi's nominal GDP in 2005, at AED 383,430 million, equalled 75.6 per cent. of the nominal GDP for the UAE in the same year. In 2006, 2007 and 2008, the equivalent proportions were 76.5 per cent., 72.0 per cent. and 71.4 per cent., respectively. Abu Dhabi's nominal GDP in 2009 was estimated to be AED 546,476 million, representing a 18 per cent. decrease from the previous year.

Abu Dhabi's nominal GDP per capita of U.S.$90,548 in 2009 according to the Abu Dhabi Statistics Centre is one of the highest in the Gulf region. The oil and gas industry dominates Abu Dhabi's economy and contributed approximately U.S.$73.5 billion, or 49.4 per cent., to nominal GDP in 2009. Increases in oil and gas production rates combined with increases in oil prices have contributed significantly to the growth in Abu Dhabi's GDP from 2004 to 2008. Oil prices declined significantly in the second half of 2008 and remained low for the first six months of 2009. This was the principal decision for the decline in Abu Dhabi's GDP in 2009.

Abu Dhabi's nominal GDP data was significantly revised in 2008 following an economic survey conducted for the first time in that year with a view to quantifying more accurately the Emirate's nominal GDP for 2007. As a result of this survey, Abu Dhabi's estimated nominal GDP for 2007 was recalculated as was the data for prior years on a basis consistent with the 2007 recalculation. Abu

Dhabi's nominal GDP data for 2008 is based on the outcome of an economic survey conducted in 2009 but its 2009 nominal GDP data is estimated pending the results of the 2010 economic survey being collated.

No meaningful real GDP information is currently available for Abu Dhabi as a result of historic uncertainties surrounding the calculation of inflation for the emirate. It is anticipated that real GDP data may become available in 2011.

The tables below show Abu Dhabi's nominal GDP, its percentage change, the UAE's nominal GDP and the percentage contribution of Abu Dhabi's nominal GDP to the UAE's nominal GDP for each of the years indicated. The revisions described above to Abu Dhabi's nominal GDP had the effect of significantly increasing its nominal GDP in each of 2005 through 2008 compared to the nominal GDP which it had previously published. This revised data for 2005 through 2008 will not be reflected in the nominal GDP for the UAE as a whole in each of those years as that data, which was separately prepared by the National Bureau of Statistics, has not been revised to reflect the revised Abu Dhabi data. As a result, the percentage contributions of Abu Dhabi's nominal GDP to the UAE's nominal GDP for 2005 to 2008 in the table below are higher than they would have been had the UAE data been revised to reflect the revised Abu Dhabi data.

	2005	**2006**	**2007**	**2008**	**2009**
			(AED billions)		
Abu Dhabi nominal GDP (current prices).	383.4	492.3	545.4	666.7	546.5
Percentage change in Abu Dhabi nominal GDP.	30.7	28.4	10.8	22.3	(18.0)
UAE nominal GDP (current prices) .	506.8	643.5	758.0	934.3	914.3
Abu Dhabi as a percentage of UAE .	75.6	76.5	72.0	71.4	59.8

Sources: Statistics Centre (for Abu Dhabi nominal GDP) and UAE National Bureau of Statistics (for UAE nominal GDP only)

Principal sectors of the economy

Abu Dhabi's GDP is dominated by the oil and gas sector which contributed approximately 56.2 per cent. of nominal GDP in 2005, approximately 59.2 per cent. in 2006, approximately 56.4 per cent. in 2007, approximately 60.9 per cent. in 2008 and 49.4 per cent. in 2009. Outside the oil and gas sector, the principal contributors to nominal GDP in Abu Dhabi in each of 2005, 2006, 2007, 2008 and 2009 have been: manufacturing industries; construction; real estate and business services; manufacturing; transport, storage and communications, financial institutions and insurance; government services;; and wholesale and retail trade and repairing services which, together, accounted for around 37 per cent. of nominal GDP in 2005, around 35.4 per cent. in 2006, around 38.3 per cent. in 2007, around 34.5 per cent. in 2008 and 44.4 per cent. in 2009.

In terms of growth, the fastest growing sectors between 2005 and 2009 were: construction; real estate and business services; electricity, water and gas; restaurants and hotels; and financial institutions and insurance with compound annual growth rates of 20.4 per cent., 15.8 per cent., 15.6 per cent., 15.3 per cent., and 15.2 per cent., respectively.

Excluding oil and gas which are treated as being under public ownership, public administration and defence are estimated to have accounted for approximately 2.9 per cent. of GDP in 2009. This proportion is forecast to continue to decline over time as the size of the public sector is reduced and the private sector is expanded as a result of privatisation, education and job creation initiatives in the private sector.

The following tables show Abu Dhabi's nominal GDP by economic activity and by percentage contribution, as well as the year-on-year growth rate, for each of the years indicated.

	2005			**2006**			**2007**		
	(AED millions)	*(%)*	*(2005 compared to 2004, % change)*	*(AED millions)*	*(%)*	*(2006 compared to 2005, % change)*	*(AED millions)*	*(%)*	*(2007 compared to 2006, % change)*
Sector									
Crude oil and natural gas	215,455	56.2	45.9	291,464	59.2	35.3	307,445	56.4	5.5
Manufacturing	28,645	7.5	23.2	32,949	6.7	15.0	35,270	6.5	7.0
Public administration and defence	10,324	2.7	(8.2)	10,675	2.2	3.4	11,571	2.1	8.4
Construction	26,321	6.9	25.6	36,922	7.5	40.3	47,036	8.6	27.4
Real estate and business services	25,621	6.7	20.2	31,660	6.4	23.6	40,088	7.4	26.6
Wholesale, retail trade and repairing services	19,864	5.2	12.5	22,533	4.6	13.4	26,160	4.8	16.1
Financial institutions and insurance	17,988	4.7	17.6	21,119	4.3	17.4	27,294	5.0	29.2
Transport, storage and telecommunications	23,604	6.2	17.5	28,985	5.9	22.8	33,292	6.1	14.9
Agriculture, livestock and fishing	5,863	1.5	(16.1)	5,603	1.1	(4.4)	5,591	1.0	(0.2)
Electricity, gas and water	8,655	2.3	31.3	10,356	2.1	19.7	12,592	2.3	21.6
Hotels and restaurants	3,602	0.9	21.8	4,265	0.9	18.4	4,864	0.9	14.0
Other	8,925	2.3	6.8	9,375	1.9	5.0	10,398	1.9	10.9
Less imputed bank services	(11,436)	(3.0)	25.8	(13,654)	(2.8)	19.4	(16,233)	(3.0)	18.9
Total GDP	**383,430**	**100.0**	**30.7**	**492,250**	**100.0**	**28.4**	**545,368**	**100.0**	**10.8**

	2008			**2009**		
	(AED millions)	*(%)*	*(2008 compared to 2007, % change)*	*(AED millions)*	*(%)*	*(2009 compared to 2008, % change)*
Sector						
Crude oil and natural gas	405,827	60.9	32.0	269,875	49.4	(33.5)
Manufacturing	38,862	5.8	10.2	40,521	7.4	4.3
Public administration and defence	13,703	2.1	18.4	15,952	2.9	16.4
Construction	52,353	7.9	11.3	55,228	10.1	5.5
Real estate and business services	43,209	6.5	7.8	46,037	8.4	6.6
Wholesale, retail trade and repairing services	28,363	4.3	8.4	30,132	5.5	6.2
Financial institutions and insurance	30,313	4.5	11.1	31,652	5.8	4.4
Transport, storage and telecommunications	36,646	5.5	10.1	38,822	7.1	5.9
Agriculture, livestock and fishing	5,512	0.8	(1.4)	5,496	1.0	(0.3)
Electricity, gas and water	14,165	2.1	12.5	15,295	2.8	8.0
Hotels and restaurants	5,542	0.8	13.9	6,425	1.2	15.9
Other	11,590	1.7	11.5	12,572	2.3	8.5
Less imputed bank services	(19,353)	(2.9)	19.2	(21,531)	(3.9)	11.3
Total GDP	**666,732**	**100.0**	**22.3**	**546,476**	**100.0**	**(18.0)**

Source: Statistics Centre

Monetary and exchange rate policy

The UAE's monetary and exchange rate policy is managed by the UAE Central Bank. Until recently, the principal objective of the UAE's monetary policy has been to maintain the stability of the fixed exchange rate regime and to manage inflation. In common with most other GCC countries, and reflecting the fact that oil and gas revenues are priced in U.S. dollars, the UAE dirham is linked to the U.S. dollar. In the case of the UAE, the exchange rate has been maintained at AED 3.6725 = U.S.$1.00 since 22 November 1980. There are no exchange controls in the UAE and the UAE dirham is freely convertible.

Towards the end of 2007, there was significant press speculation that certain countries within the GCC (including the UAE) might de-peg or re-peg their national currencies from the U.S. dollar in favour of a peg against a basket of currencies. To date, only Kuwait has taken this step. The UAE authorities expressed publicly their commitment to the U.S. dollar peg.

Following the global financial crisis in 2008, the UAE's monetary policy has been focussed on protecting its banking sector and a number of measures have been announced by the UAE Central Bank and federal authorities in this regard, see "− *Recent developments*" below.

Liquidity and money supply

The table below shows certain liquidity indicators for the UAE as at 31 December in each of 2004, 2005, 2006, 2007, 2008 and 2009 and, where data is available, as at 30 April 2010.

	2005	2006	2007	2008	2009	2010(1)
			(AED millions)			
Currency issued (M0)	21,033	26,832	31,671	45,327	45,580	45,001
Money supply (Ml)	104,449	120,019	181,664	208,138	223,482	232,970
Private domestic liquidity (M2)	324,064	399,293	565,702	674,310	740,618	750,683
Overall domestic liquidity (M3)	415,383	503,985	696,229	899,093	946,825	941,166
Broad money (M2) to nominal UAE GDP(2) (%)	64.0	62.1	74.6	72.2	81.0	
Private sector credit	290,302	385,789	530,790	751,921	786,551	
Private sector credit to nominal UAE GDP(2) (%)	57.3	60.0	70.0	80.5	86.0	
Domestic credit	353,139	474,161	647,482	924,383	958,588	
Domestic credit to nominal UAE GDP(2) (%)	69.7	73.7	85.4	98.9	104.8	

Notes:

(1) As at 30 April. Data not supplied is not available.

(2) For UAE GDP data, see "*Economy of Abu Dhabi – Gross Domestic Product*". No estimate of the UAE's GDP for 2010 is currently available.

Source: UAE Central Bank

Reflecting high oil prices through the first half of 2008, the UAE experienced significant capital inflows with broad money (comprising cash and money on deposit in banks in the domestic currency) expressed as a percentage of the UAE's nominal GDP growing from 64.0 per cent. in 2005 to 74.6 per cent. in 2007, before falling to 72.2 in 2008. AED term deposits in particular have grown significantly with foreign currency deposits also showing strong growth.

The growth in liquidity has also been reflected in increased availability of credit with the levels of both private sector credit and domestic credit, expressed as a percentage of GDP, growing significantly between 2005 and 2008.

Since mid 2008, and reflecting the effects of the global financial crisis, the rate of growth in broad money slowed with AED term deposits increasing by 19.2 per cent. in 2008 and by 9.8 per cent. in 2009 compared to an increase of 41.6 per cent. in 2007. Similarly, the availability of credit has been constrained since the end of 2008 with private sector credit standing at AED 751,921 million at 31 December 2008 and AED 786,551 million at 31 December 2009, an increase of only 4.6 per cent. in 2009, compared to increases of 41.7 per cent., 37.6 per cent. and 32.9 per cent. in each of 2008, 2007 and 2006, respectively. Similarly, domestic credit stood at AED 924,383 million at 31 December 2008 and AED 958,588 million at 31 December 2009, an increase of only 3.7 per cent. in 2009, compared to increases of 42.8 per cent., 36.6 per cent. and 34.3 per cent. in each of 2008, 2007 and 2006, respectively.

Foreign reserves

The table below shows the foreign assets and gold holdings of the UAE Central Bank as at 31 December in each of 2004, 2005, 2006, 2007, 2008 and 2009 and as at 30 April 2010.

	2005	2006	2007	2008	2009	2010(1)
			(AED millions)			
Foreign asset holdings	77,657	102,345	285,693	113,039	89,875	79,065

Notes:

(1) As at 30 April.

Source: UAE Central Bank

These assets are principally held in deposit accounts with banks outside the UAE or are invested in securities and treasury bills issued by non-UAE issuers. The official reserves figure, however, excludes the stock of publicly controlled foreign assets held in other accounts by bodies such as ADIA. In addition, the ruling families of the various Emirates as well as the governments of the Emirates and private citizens within the Emirates have very significant sums invested abroad.

The significant increase in foreign reserves at the end of 2007 principally reflected U.S. dollar purchases by the UAE Central Bank in response to market speculation that the UAE might abandon its policy of pegging the national currency to the U.S. dollar. As this speculation abated in 2008, the UAE Central Bank was able to sell U.S. dollars thus reducing its foreign currency reserves by comparison with the 31 December 2007 level.

Banking and financial services

The financial institutions and insurance industry in Abu Dhabi contributed 4.7 per cent. of Abu Dhabi's nominal GDP in 2005, 4.3 per cent. in 2006, 5.0 per cent. in 2007, 4.5 per cent. in 2008 and 5.8 per cent. in 2009. Within the UAE as a whole, the financial corporations sector was estimated to have contributed approximately 5.7 per cent., 5.5 per cent., 5.4 per cent., 5.3 per cent., and 5.8 per cent., of nominal GDP in each of 2005 through 2009, reflecting the additional significant contribution of Dubai. With 51 licensed banks (comprised of 23 locally-incorporated banks and 28 foreign banks) at 30 April 2010, serving a population estimated to be almost 5 million at the end of 2008, the UAE could be viewed as an over-banked market, even by regional standards. UAE banks continue to be profitable, although they have been affected by the liquidity issues that have been experienced by banks globally since the second half of 2008.

The IMF noted in its July 2006 UAE country report that credit risk is the most important risk factor in the UAE banking sector and that the increased concentration of bank loans to a few large business groups that dominate the economy calls for close monitoring. According to the UAE Central Bank, the aggregate bank credit extended to residents and non-residents of the UAE at 31 December 2009 was AED 1,061.8 billion, compared to AED 1,019.0 billion at 31 December 2008 and AED 722.1 billion at 31 December 2007. As at the same dates, the NPL portfolio of the UAE banks was AED 51.0 billion, AED 25.5 billion and AED 21.0 billion, respectively, and the total provisions made by UAE banks were AED 50.5 billion, AED 31.1 billion and AED 26.7 billion, respectively.

The table below provides a statistical analysis of the UAE banking sector as at 31 December in each of 2004, 2005, 2006, 2007, 2008 and 2009 and as at 30 April 2010.

	2005	2006	2007	2008	2009	2010[1]
			(AED millions)			
Total number of banks	46	46	49	52	52	51
Total number of branches and outlets	506	573	589	696	756	770
Total number of employees	23,600	26,963	32,142	39,589	37,704	36,509
Total loans[2] **(AED millions)**	394,893	537,671	722,095	1,018,996	1,061,076	
Total NPLs **(AED millions)**	32,625	33,883	20,951	25,455	51,046	
Total NPLs/total loans **(per cent.)**	8.3	6.3	2.9	2.5	4.8	
Total provisions[3] **(AED millions)**	31,576	38,542	26,678	31,086	50,511	
Total provisions/total loans **(per cent.)**	8.0	7.2	3.7	3.0	4.8	
Total assets **(AED millions)**	638,003	859,665	1,232,717	1,481,822	1,562,457	
Total deposits **(AED millions)**	409,669	518,806	716,021	912,170	982,579	
Tier 1 capital ratio **(per cent.)**	16.9	15.0	12.4	12.3	15.4	
Total capital ratio **(per cent.)**	17.4	16.6	14.0	13.3	19.2	

Notes:

(1) As at 30 April. Data not supplied is not available.

(2) Extended to residents and non-residents. Net of provisions and interest in suspense for 2007, 2008 and 2009 only.

(3) Total specific and general provisions.

Source: UAE Central Bank

Principal banks in Abu Dhabi

The table below provides summary information for each of the five principal banks established in Abu Dhabi.

Bank Name	Number of Branches[1]	Year Established	Government ownership[2]	2008 Assets[3]
			(%)	*(AED millions)*
National Bank of Abu Dhabi	74	1968	73.00	196,845
Abu Dhabi Commercial Bank	42	1985	64.84	160,209
First Gulf Bank	18	1979	–[4]	125,473
Union National Bank	46	1982	50.00	75,726
Abu Dhabi Islamic Bank	54	1997	10.00	64,084

Notes:

(1) As at 28 February 2010.

(2) Government ownership is either direct or through government-owned organisations.

(3) Consolidated total assets. As at 31 December 2009.

(4) First Gulf Bank is approximately 60 per cent. owned by members of the ruling family of Abu Dhabi.

Source: UAE Central Bank and, for 2009 assets, published financial statements.

In June 2008, Al Hilal Islamic Bank ("**Hilal Bank**") began operations. Hilal Bank was established by Council with an authorised share capital of approximately AED 4 billion and is licensed to operate as an Islamic bank. As at 28 February 2010, Hilal Bank had 15 branches across the UAE.

Supervision of banks

The UAE Central Bank, established in 1980, is the governing body that regulates and supervises all banks operating in the UAE. The UAE Central Bank has supervisory responsibility for all banking institutions in the UAE. Supervision is carried out through on site inspections and review of periodic submissions from the banks. The frequency of inspection depends on the perceived risk of the bank, but inspections are carried out in all banks at least once every 18 months. Returns are made monthly, quarterly, semi-annually or annually, depending on the nature of the information they are required to contain. An improved risk management framework is currently being implemented, which is designed to provide the UAE Central Bank with more up-to-date information on credit, market and operational risks within the banking sector.

The UAE Central Bank does not act as a lender of last resort, a role which tends to fall on the individual Emirate. Federal Law No. 10 of 1980 (the "**1980 Law**") grants the UAE Central Bank powers to do the following:

- exercise currency issue, stabilisation, valuation and free convertibility;
- direct credit policy for balanced growth of the economy;
- organise and promote an effective banking system with private banks and institutions;
- advise the Federal Government on financial and monetary issues;
- maintain the Federal Government's reserves of gold and foreign currencies;
- act as a bank for the Federal Government and other banks operating in the UAE; and
- act as the Federal Government's financial agent with the IMF, the World Bank and other international financial organisations.

The UAE Central Bank is also responsible for regulating anti-money laundering activities in the UAE. It has established a Financial Intelligence Unit and hosted teams from the Financial Action Task Force ("**FATF**") and the IMF who reviewed, discussed and tested existing UAE laws and regulations. This led the FATF to decide, in January 2002, that the UAE had put in place an adequate anti-money laundering system.

Since 1999, regulated banks in the UAE have been required to report in accordance with International Financial Reporting Standards.

Characteristics of the banking system

The UAE banks are predominantly focused on the domestic market. In 1987, foreign banks operating in the UAE were limited to a maximum of eight branches. As at 30 September 2008, the 28 foreign banks in the country accounted for approximately 23 per cent. of the total assets, 24 per cent. of total deposits (excluding government and inter-bank deposits) and approximately 19 per cent. of the total domestic credit facilities of all UAE banks.

With much of the economy directly or indirectly dependent on the oil sector, the UAE banks are vulnerable during long periods of low oil prices. In particular, oil revenues tend to drive levels of liquidity. The high oil prices and strong economic conditions in the UAE between 2005 and 2008 allowed the UAE banks to expand significantly their activities with total loans and deposits of the banking sector increasing by 255 per cent. and 214 per cent., respectively, between 31 December 2004 and 31 December 2008. Because a significant part of this growth was linked to growth in the real estate sector and investments in equity markets, the increased liquidity of the UAE banking sector has come with an associated increase in exposure to credit and market risk. This exposure was evidenced with the onset of the global economic crisis when, in 2008, equity prices declined, with the ADX's Abu Dhabi index falling from 4,551.80 as at 31 December 2007 to 2,390.01 as at 31 December 2008 (according to data provided by Bloomberg) and the Dubai Financial Market declining from 5,931.95 as at 31 December 2007 to 1,636.29 as at 31 December 2008. Towards the end of 2008, rents and property values in the UAE also fell significantly, which further adversely impacted the UAE banking sector during 2009.

There is a high degree of state involvement in the UAE banking sector, with the five largest banks being controlled by the governments and/or ruling families of individual Emirates.

Additionally, a number of banks have developed in the Islamic world, including in the UAE, to serve customers who wish to observe Sharia principles, including the prohibition on the charging of interest on any financial transaction. These institutions offer a range of products, which broadly correspond to conventional banking transactions but are structured to ensure that all relevant Sharia principles are complied with. The principal Abu Dhabi-based Islamic banks are Abu Dhabi Islamic Bank and Hilal Bank.

Structure of the banking system

Banking institutions in the UAE fall into a number of categories, as defined by the 1980 Law. Domestic commercial banks, also known as "local" banks, of which there were 23 as at 30 April 2010, are required to be public shareholding companies with a minimum share capital of AED 40 million.

Licensed foreign banks, of which there were 28 at 30 April 2010, need to demonstrate that at least AED 40 million has been allocated as capital funds for their operations in the UAE. The 1980 Law also licenses "financial institutions" (institutions whose principal functions are to extend credit, carry out financial transactions, invest in moveable property and other activities but are not permitted to accept funds in the form of deposits), investment banks (institutions which may not accept deposits with maturities of less than two years but which may borrow from its head office or other banks and the financial markets) and financial and monetary intermediaries (money and stock brokers).

Recent developments

Capital

The national banks are well capitalised by international standards. The UAE Central Bank previously required all UAE banks to have a total capital adequacy ratio of at least 10 per cent, in which Tier I capital must reach a minimum of 6 per cent. of total risk weighted assets, and Tier II capital may only be considered up to a maximum of 67 per cent. of Tier I capital. However, as a result of the global economic slowdown, the UAE Ministry of Finance and the UAE Central Bank have temporarily increased the Tier I capital ratio to 11 per cent. effective from 30 June 2009 and the minimum Tier I capital ratio to 12 per cent. to apply by 30 June 2012. Subsequently on 31 August 2009, the UAE Central Bank recommended that domestic and foreign banks operating in the UAE should establish a Tier 1 capital adequacy ratio of 7 per cent., with a minimum total capital adequacy ratio of 11 per cent., by 30 September 2009. Furthermore, the UAE Central Bank required banks operating in the UAE to increase their Tier I capital adequacy ratio to at least 8 per cent., with a minimum total capital adequacy ratio of 12 per cent. by 30 June 2010. The new temporary minimum rates are anticipated to be reviewed at the beginning of 2011.

While the calculation of capital adequacy ratios in the UAE follows the Bank of International Settlements (BIS) guidelines, claims on or guaranteed by GCC central governments and central banks are risk weighted at zero per cent. and claims on GCC government non-commercial public sector entities are risk-weighted at 50 per cent.

Banks in the UAE are required to transfer 10 per cent. of profit each year into a statutory reserve until this reaches 50 per cent. of capital. Distributions cannot be made from this reserve, except in special legally defined circumstances. All dividends paid by UAE banks have to be authorised in advance by the UAE Central Bank.

The UAE banks were required to implement the Basel II Accord using the standardised approach for credit risk by December 2007 and all UAE banks are expected to be internal risk-based compliant for credit risk by 1 January 2011.

The Basel II Accord are risk-based guidelines on capital adequacy requirements and regulatory standards, issued by the Bank of International Settlements in June 2004, and are a progression of the original 1988 Basel I global capital adequacy rules for banks and financial institutions. Basel II framework has three "pillars": minimum capital requirements, supervisory review process and market discipline. Banks are required to allocate capital towards the standard banking risks: credit risk, market risk and operational risk, termed as Pillar I risks and also towards other risks such as liquidity risks, legal risks, interest rate risk in the banking book, reputational risks etc, generally termed as Pillar II risks. The Pillar II framework also envisages that banks adopt an Internal Capital Assessment Adequacy Process (ICAAP).

Basel II requires banks to maintain a minimum capital adequacy ratio of 8 per cent., calculated as the percentage of total eligible regulatory capital to total risk weighted assets for credit risks, operational and market risks. Under Pillar II, regulators could require some banks to provide additional capital based on the overall risk profile, beyond the minimum requirements under Pillar I.

During 2008, Abu Dhabi government-owned institutions assisted certain Abu Dhabi banks in strengthening their capital base through the subscription of mandatory convertible securities and, in February 2009, the government (acting through the Department of Finance) subscribed, in aggregate, a sum of AED 16 billion in subordinated Tier I Capital Notes issued by the five largest Abu Dhabi banks. In addition, the federal government provided AED 50 billion in deposits to UAE banks and UAE banks were given the option to convert those deposits into tier 2 capital in order to enhance capital adequacy ratios. A number of banks in the UAE subsequently made such conversions. As a result of the onset of the global financial crisis and reflecting the impact of all these measures, the average capital adequacy ratio of all UAE national banks moved from 14.0 per cent. at 31 December 2007 to 13.3 per cent. at 31 December 2008 and to 19.2 per cent. at 31 December 2009 and the average capital adequacy ratio of the Abu Dhabi national banks moved from 14.7 per cent. at 31 December 2007 to 12.5 per cent. at 31 December 2008 and to 19.1 per cent. at 31 December 2009.

Liquidity

Most of the UAE banks are funded through on demand or time based customer deposits made by private individuals or private sector companies. Together, these deposits constituted approximately 59.3 per cent. of total deposits of the UAE banking sector at 30 April 2010. Government and public sector deposits contributed approximately 18 per cent. of total deposits at 30 April 2010. Non-resident and other sources contributed approximately 22.7 per cent. as at the same date.

There is currently no formal deposit protection scheme in the UAE. While no bank has, so far, been permitted to fail, during the 1980s and early 1990s a number were restructured by the authorities. In October 2008, in response to the global financial crisis, the UAE Federal Government announced that it intended to guarantee the deposits of all UAE banks and foreign banks with core operations in the UAE. Following that announcement, in May 2009 the UAE's National Federal Council approved a draft law guaranteeing federal deposits. There can, however, be no assurance that any draft law will subsequently be passed. As such, until such time as the law is passed, there is no guaranteed government liquidity support.

In addition, the UAE Central Bank announced a number of measures aimed at ensuring that adequate liquidity is available to banks operating in the UAE. In September 2008, the UAE Central Bank established a AED 50 billion liquidity facility which banks can draw upon subject to posting eligible debt securities as collateral. The liquidity facility is available only for the purpose of funding existing commitments. New lending is required to be based on growth in the customer deposit base. The UAE Central Bank also established a CD repo facility under which banks can use certificates of deposit as collateral for dirham or U.S. dollar funding from the Central Bank. In addition (as mentioned above) to these measures, the UAE federal government also provided AED 50 billion in deposits to UAE banks (as part of a larger AED 70 billion package) which, at the option of the banks, can be converted into Tier II capital in order to enhance capital adequacy ratios.

Certain mortgage companies based in the UAE have experienced significant liquidity issues in recent months and plans are being formulated to support these institutions.

Large exposures

The UAE Central Bank has set a large exposures limit of seven per cent. of bank capital and a single holding limit of five per cent. of bank capital.

Capital markets

The capital markets in the UAE are regulated by a number of entities including the Emirates Securities and Commodities Authority ("**SCA**"), which licenses intermediaries to trade on the ADX and the Dubai Financial Market ("**DFM**"). SCA is a federal government organisation but has financial, legal and administrative independence.

In common with other regional exchanges, the ADX and the DFM stock exchange indices experienced a sustained decline from mid-2008 with the ADX's Abu Dhabi index falling from a high of 5,137.44 as at 5 June 2008 to a low of 2,137.15 as at February 2009 (according to data provided by Bloomberg) and the DFM index declining from a high of 6,320.44 as at 16 January 2008 to a low of 1,469.98 as at 14 September 2009.

The other significant stock exchange in the UAE is NASDAQ Dubai (formerly known as the Dubai International Financial Exchange), which commenced operations in September 2005 and, as an entity based in the Dubai International Financial Centre, is separately regulated. In December 2009, it was announced that the DFM would acquire NASDAQ Dubai from its current owners, Borse Dubai and NASDAQ OMX and that NASDAQ OMX would become a minority shareholder of the DFM.

Abu Dhabi Securities Exchange

The ADX was established by the government of Abu Dhabi in November 2000 as an independent entity and operates as a market for listing and trading of shares, bonds and investment units issued by companies, investment funds and other local or foreign financial institutions that conform to its listing requirements. The ADX was established as the Abu Dhabi Securities Market but, in May 2008, changed its name to the Abu Dhabi Securities Exchange. The table below shows the number of listed companies and bonds, the number of traded shares, the value of traded shares and the number of executed transactions for the years indicated.

	2005	**2006**	**2007**	**2008**	**2009**
Number of listed companies[(1)]	59	60	64	65	65
Number of listed bonds[(1)]	_	2	2	2	1
Number of traded shares **(millions)**	8,267	11,296	52,066	49,984	37,616
Value of traded shares **(AED millions)**	104,707	70,601	175,344	232,160	70,169
Number of executed transactions	565,562	715,748	1,102,658	1,126,486	744,710

Note:

(1) As at 31 December.

Source: ADX

ADX has the authority to establish centres and branches outside the Emirate of Abu Dhabi. To date, it has done so in Fujairah, Ras al Khaimah and Sharjah.

BOOK-ENTRY CLEARANCE SYSTEMS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Obligors nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

Book-entry Systems

DTC

DTC has advised the Issuer that it is a limited purpose trust company organised under the New York Banking Law, a member of the Federal Reserve System, a "banking organisation" within the meaning of the New York Banking Law, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to Section 17A of the Exchange Act. DTC holds securities that its participants ("**Direct Participants**") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerised book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organisations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("**DTCC**"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC System is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("**Indirect Participants**" and, together with Direct Participants, "**Participants**"). More information about DTC can be found at www.dtcc.com and www.dtc.org.

Under the rules, regulations and procedures creating and affecting DTC and its operations (the "**DTC Rules**"), DTC makes book-entry transfers of Registered Notes among Direct Participants on whose behalf it acts with respect to Notes accepted into DTC's book-entry settlement system ("**DTC Notes**") as described below and receives and transmits distributions of principal and interest on DTC Notes. The DTC Rules are on file with the Securities and Exchange Commission. Direct Participants and Indirect Participants with which beneficial owners of DTC Notes ("**Owners**") have accounts with respect to the DTC Notes similarly are required to make book-entry transfers and receive and transmit such payments on behalf of their respective Owners. Accordingly, although Owners who hold DTC Notes through Direct Participants or Indirect Participants will not possess Registered Notes, DTC the Rules, by virtue of the requirements described above, provide a mechanism by which Direct Participants will receive payments and will be able to transfer their interest in respect of the DTC Notes.

Purchases of DTC Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the DTC Notes on DTC's records. The ownership interest of each actual purchaser of each DTC Note ("**Beneficial Owner**") is in turn to be recorded on the Direct and Indirect Participant's records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the DTC Notes are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in DTC Notes, except in the event that use of the book-entry system for the DTC Notes is discontinued.

To facilitate subsequent transfers, all DTC Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorised representative of DTC. The deposit of DTC Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the DTC Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such DTC Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the DTC Notes within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to DTC Notes unless authorised by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the DTC Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the DTC Notes will be made to Cede & Co., or such other nominee as may be requested by an authorised representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the relevant agent (or such other nominee as may be requested by an authorised representative of DTC), on the relevant payment date in accordance with their respective holdings shown in DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC or the Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Issuer, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

Under certain circumstances, including if there is an Event of Default under the Notes, DTC will exchange the DTC Notes for definitive Registered Notes, which it will distribute to its Participants in accordance with their proportionate entitlements and which, if representing interests in a Rule 144A Global Note, will be legended as set forth under "*Subscription and Sale and Transfer and Selling Restrictions*".

A Beneficial Owner shall give notice to elect to have its DTC Notes purchased or tendered, through its Participant, to the relevant agent, and shall effect delivery of such DTC Notes by causing the Direct Participant to transfer the Participant's interest in the DTC Notes, on DTC's records, to the relevant agent. The requirement for physical delivery of DTC Notes in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the DTC Notes are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered DTC Notes to the relevant agent's DTC account.

DTC may discontinue providing its services as depository with respect to the DTC Notes at any time by giving reasonable notice to the Issuer or the relevant agent. Under such circumstances, in the event that a successor depository is not obtained, DTC Note certificates are required to be printed and delivered.

The Issuer may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, DTC Note certificates will be printed and delivered to DTC.

Since DTC may only act on behalf of Direct Participants, who in turn act on behalf of Indirect Participants, any Owner desiring to pledge DTC Notes to persons or entities that do not participate in DTC, or otherwise take actions with respect to such DTC Notes, will be required to withdraw its Registered Notes from DTC as described below.

Euroclear and Clearstream, Luxembourg

Euroclear and Clearstream, Luxembourg each holds securities for its customers and facilitates the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are world-wide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Book-entry Ownership of and Payments in respect of DTC Notes

The relevant Issuer may apply to DTC in order to have any Tranche of Notes represented by a Registered Global Note accepted in its book-entry settlement system. Upon the issue of any such Registered Global Note, DTC or its custodian will credit, on its internal book-entry system, the respective nominal amounts of the individual beneficial interests represented by such Registered Global Note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the relevant Dealer. Ownership of beneficial interests in such a Registered Global Note will be limited to Direct Participants or Indirect Participants, including, in the case of any Regulation S Global Note, the respective depositaries of Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in a Registered Global Note accepted by DTC will be shown on, and the transfer of such ownership will be effected only through, records maintained by DTC or its nominee (with respect to the interests of Direct Participants) and the records of Direct Participants (with respect to interests of Indirect Participants).

Payments in U.S. dollars of principal and interest in respect of a Registered Global Note accepted by DTC will be made to the order of DTC or its nominee as the registered holder of such Note. In the case of any payment in a currency other than U.S. dollars, payment will be made to the Exchange Agent on behalf of DTC or its nominee and the Exchange Agent will (in accordance with instructions received by it) remit all or a portion of such payment for credit directly to the beneficial holders of interests in the Registered Global Note in the currency in which such payment was made and/or cause all or a portion of such payment to be converted into U.S. dollars and credited to the applicable Participants' account.

Each Obligor expects DTC to credit accounts of Direct Participants on the applicable payment date in accordance with their respective holdings as shown in the records of DTC unless DTC has reason to believe that it will not receive payment on such payment date. Each Obligor also expects that payments by Participants to beneficial owners of Notes will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers, and will be the responsibility of such Participant and not the responsibility of DTC, the Principal Paying Agent, the Registrar or the relevant Obligor. Payment of principal, premium, if any, and interest, if any, on Notes to DTC is the responsibility of the relevant Obligor.

Transfers of Notes Represented by Registered Global Notes

Transfers of any interests in Notes represented by a Registered Global Note within DTC, Euroclear and Clearstream, Luxembourg will be effected in accordance with the customary rules and operating procedures of the relevant clearing system. The laws in some States within the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer Notes represented by a Registered Global Note to such persons may depend upon the ability to exchange such Notes for Notes in definitive form. Similarly, because DTC can only act on behalf of Direct Participants in the DTC system who in turn act on behalf of Indirect Participants, the ability of a person having an interest in Notes represented by a Registered Global Note accepted by DTC to pledge such Notes to persons or entities that do not participate in the DTC system or otherwise to take action in respect of such Notes may depend upon the ability to exchange such Notes for Notes in definitive form. The ability of any holder of Notes represented by a Registered Global Note accepted by DTC to resell, pledge or otherwise transfer such Notes may be impaired if the proposed transferee of such Notes is not eligible to hold such Notes through a direct or indirect participant in the DTC system.

Subject to compliance with the transfer restrictions applicable to the Registered Notes described under "*Subscription and Sale and Transfer and Selling Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Clearstream, Luxembourg or Euroclear accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the Registrar, the Principal Paying Agent and any custodian ("**Custodian**") with whom the relevant Registered Global Notes have been deposited.

On or after the Issue Date for any Series, transfers of Notes of such Series between accountholders in Clearstream, Luxembourg and Euroclear and transfers of Notes of such Series between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Clearstream, Luxembourg or Euroclear and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Clearstream, Luxembourg and Euroclear, on the other, transfers of interests in the relevant Registered Global Notes will be effected through the Registrar, the Principal Paying Agent and the Custodian receiving instructions (and, where appropriate, certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

DTC, Clearstream, Luxembourg and Euroclear have each published rules and operating procedures designed to facilitate transfers of beneficial interests in Registered Global Notes among participants and accountholders of DTC, Clearstream, Luxembourg and Euroclear. However, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Obligors, the Agents or any Dealer will be responsible for any performance by DTC, Clearstream, Luxembourg or Euroclear or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations and none of them will have any liability for any aspect of the records relating to or payments made on account of beneficial interests in the Notes represented by Registered Global Notes or for maintaining, supervising or reviewing any records relating to such beneficial interests.

TAXATION

The following summary of certain United States, Cayman Islands, United Arab Emirates and European Union Savings Tax Directive tax consequences of ownership of Notes is based upon laws, regulations, decrees, rulings, income tax conventions, administrative practice and judicial decisions in effect at the date of this Base Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to holders of the Notes. This summary does not purport to be a legal opinion or to address all tax aspects that may be relevant to a holder of Notes. Each prospective holder is urged to consult its own tax adviser as to the particular tax consequences to such holder of the acquisition, ownership and disposition of Notes, including the applicability and effect of any other tax laws or tax treaties, and of pending or proposed changes in applicable tax laws as of the date of this Base Prospectus, and of any actual changes in applicable tax laws after such date.

CAYMAN ISLANDS

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of present legislation. The Issuer received an undertaking dated 22 May 2008 from the governor-in-cabinet of the Cayman Islands, pursuant to the Tax Concessions Law (as revised) of the Cayman Islands, that for a period of 20 years from the date of grant of that undertaking no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Issuer or its operation and in addition, that no tax to be levied on profits, income, gains or appreciations which is in the nature of estate duty or inheritance tax shall be payable on or in respect of the shares, debentures or other duty inheritance tax shall be payable on or in respect of the shares, debentures or other obligations (which include the Notes) of the Issuer or by way of the withholding in whole or part of any relevant payment. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Notes. However, an instrument transferring title to such Notes, if brought to or executed in the Cayman Islands, would be subject to Cayman Islands stamp duty. An annual registration fee is payable by the Trustee to the Cayman Islands Registrar of Companies which is calculated by reference to the nominal amount of its authorised capital. At current rates, this annual registration fee is approximately U.S.$732. The foregoing is based on current law and practice in the Cayman Islands and this is subject to change therein.

UNITED ARAB EMIRATES

The following summary of the anticipated tax treatment in the UAE in relation to the payments on the Notes is based on the taxation law and practice in force at the date of this Base Prospectus, and does not constitute legal or tax advice and prospective investors should be aware that the relevant fiscal rules and practice and their interpretation may change. Prospective investors should consult their own professional advisers on the implications of subscribing for, buying, holding, selling, redeeming or disposing of Notes and the receipt of any payments with respect to such Notes under the laws of the jurisdictions in which they may be liable to taxation.

There is currently in force in the Emirates of Abu Dhabi and Dubai legislation establishing a general corporate taxation regime (the Abu Dhabi Income Tax Decree 1965 (as amended) and the Dubai Income Tax Decree 1969 (as amended)). The regime is, however, not enforced save in respect of companies active in the hydrocarbon industry, some related service industries and branches of foreign banks operating in the UAE. It is not known whether the legislation will or will not be enforced more generally or within other industry sectors in the future. Under current legislation, there is no requirement for withholding or deduction for or on account of UAE, Abu Dhabi or Dubai taxation in respect of payments of interest or principal on debt securities (including the Notes).

The Constitution of the UAE specifically reserves to the Federal Government of the UAE the right to raise taxes on a federal basis for purposes of funding its budget. It is not known whether this right will be exercised in the future.

The UAE has entered into “Double Taxation Arrangements” with certain other countries.

EU SAVINGS TAX DIRECTIVE

Under the Savings Tax Directive, Member States are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State or to certain limited types of entities established in that other Member State. However, for a transitional period, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories including Switzerland have adopted similar measures (a withholding system in the case of Switzerland).

On 15 September 2008 the European Commission issued a report to the Council of the European Union on the operation of the Savings Tax Directive, which included the Commission's advice on the need for changes to the Savings Tax Directive. On 13 November 2008 the European Commission published a more detailed proposal for amendments to the Savings Tax Directive, which included a number of suggested changes. The European Parliament approved an amended version of this proposal on 24 April 2009. If any of those proposed changes are made in relation to the Savings Tax Directive, they may amend or broaden the scope of the requirements described above.

SUBSCRIPTION AND SALE AND TRANSFER AND SELLING RESTRICTIONS

The Dealers have, in an amended and restated programme agreement (the "**Programme Agreement**") dated 7 July 2009, as supplemented by a supplemental programme agreement dated 21 October 2010, agreed with the Obligors a basis upon which they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Programme Agreement, the Obligors have agreed to reimburse the Dealers for certain of their expenses in connection with the establishment and any future update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith.

In order to facilitate the offering of any Tranche of the Notes, certain persons participating in the offering of the Tranche may engage in transactions that stabilise, maintain or otherwise affect the market price of the relevant Notes during and after the offering of the Tranche. Specifically such persons may over-allot or create a short position in the Notes for their own account by selling more Notes than have been sold to them by the Issuer. Such persons may also elect to cover any such short position by purchasing Notes in the open market. In addition, such persons may stabilise or maintain the price of the Notes by bidding for or purchasing Notes in the open market and may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering of the Notes are reclaimed if Notes previously distributed in the offering are repurchased in connection with stabilisation transactions or otherwise. The effect of these transactions may be to stabilise or maintain the market price of the Notes at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the Notes to the extent that it discourages resales thereof. No representation is made as to the magnitude or effect of any such stabilising or other transactions. Such transactions, if commenced, may be discontinued at any time. Under U.K. laws and regulations stabilising activities may only be carried on by the Stabilising Manager named in the applicable Final Terms (or persons acting on its behalf) and only for a limited period following the Issue Date of the relevant Tranche of Notes.

Transfer Restrictions

As a result of the following restrictions, purchasers of Notes who are in the United States or who are U.S. persons are advised to consult legal counsel prior to making any purchase, offer, sale, resale or other transfer of such Notes.

Each purchaser of Registered Notes (other than a person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note) or person wishing to transfer an interest from one Registered Global Note to another or from global to definitive form or vice versa, will be required to acknowledge, represent and agree, and each person purchasing an interest in a Registered Global Note with a view to holding it in the form of an interest in the same Global Note will be deemed to have acknowledged, represented and agreed, as follows (terms used in this paragraph that are defined in Rule 144A or in Regulation S are used herein as defined therein):

(i) that either: (a) it is a QIB, purchasing (or holding) the Notes for its own account or for the account of one or more QIBs and it is aware that any sale to it is being made in reliance on Rule 144A or (b) it is outside the United States and is not a U.S. person;

(ii) that it, and each account for which it is purchasing, will hold and transfer at least the minimum denomination of the Notes;

(iii) that the Notes are being offered and sold in a transaction not involving a public offering in the United States within the meaning of the Securities Act, and that the Notes have not been and will not be registered under the Securities Act or any other applicable U.S. State securities laws and, accordingly, the Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;

(iv) that, unless it holds an interest in a Regulation S Global Note and either is a person located outside the United States or is not a U.S. person, if in the future it decides to resell, pledge or otherwise transfer the Notes or any beneficial interests in the Notes, it will do so, prior to the expiration of the applicable required holding period pursuant to Rule 144A from the later of the last Issue Date for the Series and the last date on which the relevant Issuer or an affiliate of the relevant Issuer was the owner of such Notes, only (a) to the relevant Issuer or any affiliate thereof, (b) inside the United States to a person whom the seller reasonably believes is a QIB purchasing for its own account or for the account of one or more QIBs in a transaction meeting the requirements of Rule 144A, (c) outside the United States in compliance with Rule 903 or Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act, in each case in accordance with all applicable U.S. State securities laws;

(v) it will, and will require each subsequent holder to, notify any purchaser of the Notes from it of the resale restrictions referred to in paragraph (vii) above, if then applicable;

(vi) that Notes initially offered in the United States to QIBs will be represented by one or more Rule 144A Global Notes and that Notes offered outside the United States in reliance on Regulation S will be represented by one or more Regulation S Global Notes;

(vii) unless otherwise stated in the Final Terms (i) it is not, is not using the assets of and shall not at any time hold such Note for or on behalf of an "employee benefit plan" as defined in Section 3(3) of ERISA, which is subject to Title I of ERISA, a plan subject to Section 4975 of the Code, an entity whose underlying assets include plan assets by reason of a plan's investment in such entity or a governmental, church or non-US plan which is subject to any federal, state, local or non-U.S. law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code ("**Similar Law**") or (ii) its acquisition, holding and disposition of such Note or of any interest therein, will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or, in the case of a governmental, church or non-U.S. plan, a violation of any applicable Similar Laws;

(viii) that the Notes in registered form, other than the Regulation S Global Notes, issued by ADCB Finance Cayman will bear a legend to the following effect unless otherwise agreed to by ADCB Finance Cayman:

"NEITHER THIS SECURITY NOR THE GUARANTEE THEREOF HAS BEEN NOR WILL BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS, AND, ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) ("QIB") PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS IN A MINIMUM PRINCIPAL AMOUNT OF U.S.$100,000 (OR THE EQUIVALENT AMOUNT IN A FOREIGN CURRENCY); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE SECURITY. EACH TRANSFEROR OF THIS SECURITY WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE AGENCY AGREEMENT TO ITS TRANSFEREE.

UNLESS OTHERWISE STATED IN THE FINAL TERMS, EACH PURCHASER AND TRANSFEREE OF ANY NOTE WILL BE DEEMED TO REPRESENT AND AGREE THAT EITHER (I) IT IS NOT, IS NOT USING THE ASSETS OF AND SHALL NOT AT ANY TIME HOLD SUCH NOTE FOR OR ON BEHALF OF AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), A PLAN SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED ("CODE"), OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PL AN ASSETS BY REASON OF A PLAN'S INVESTMENT IN SUCH ENTITY OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN SUBJECT TO FEDERAL, STATE, LOCAL OR NON-U.S. LAWS WHICH ARE SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW") OR (II) ITS ACQUISITION, HOLDING AND DISPOSITION OF SUCH NOTE OR OF ANY INTEREST THEREIN, WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR, IN THE CASE OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, A VIOLATION OF ANY SIMILAR LAW.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

(ix) that the Notes in registered form, other than the Regulation S Global Notes, issued by ADCB will bear a legend to the following effect unless otherwise agreed to by ADCB:

"THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT AS SET FORTH IN THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF, THE HOLDER (A) REPRESENTS THAT (1) IT IS A "QUALIFIED INSTITUTIONAL BUYER" (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) ("QIB") PURCHASING THE SECURITIES FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS IN A MINIMUM PRINCIPAL AMOUNT OF U.S.$100,000 (OR THE EQUIVALENT AMOUNT IN A FOREIGN CURRENCY); (B) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE SECURITIES EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND OTHER THAN (1) TO THE ISSUER OR ANY AFFILIATE THEREOF, (2) INSIDE THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QIB WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (3) OUTSIDE THE UNITED STATES IN COMPLIANCE WITH RULE 903 OR RULE 904 UNDER THE SECURITIES ACT, (4) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH CASE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES AND ANY OTHER

JURISDICTION; AND (C) IT AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF THE EXEMPTION PROVIDED BY RULE 144 FOR RESALES OF THE SECURITY.

EACH TRANSFEROR OF THIS SECURITY WILL PROVIDE NOTICE OF THE TRANSFER RESTRICTIONS SET FORTH HEREIN AND IN THE AGENCY AGREEMENT TO ITS TRANSFEREE.

UNLESS OTHERWISE STATED IN THE FINAL TERMS, EACH PURCHASER AND TRANSFEREE OF ANY NOTE WILL BE DEEMED TO REPRESENT AND AGREE TH AT EITHER (I) IT IS NOT, IS NOT USING THE ASSETS OF AND SHALL NOT AT ANY TIME HOLD SUCH NOTE FOR OR ON BEHALF OF AN "EMPLOYEE BENEFIT PLAN" AS DEFINED IN SECTION 3(3) OF THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED ("ERISA"), A PLAN SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED ("CODE"), OR AN ENTITY WHOSE UNDERLYING ASSETS INCLUDE PLAN ASSETS BY REASON OF A PLAN'S INVESTMENT IN SUCH ENTITY OR A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN SUBJECT TO FEDERAL, STATE, LOCAL OR NON-U.S. LAWS WHICH ARE SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE ("SIMILAR LAW") OR (II) ITS ACQUISITION, HOLDING AND DISPOSITION OF SUCH NOTE OR OF ANY INTEREST THEREIN, WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR, IN THE CASE OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, A VIOLATION OF ANY SIMILAR LAW.

THIS SECURITY AND RELATED DOCUMENTATION (INCLUDING, WITHOUT LIMITATION, THE AGENCY AGREEMENT REFERRED TO HEREIN) MAY BE AMENDED OR SUPPLEMENTED FROM TIME TO TIME, WITHOUT THE CONSENT OF, BUT UPON NOTICE TO, THE HOLDERS OF SUCH SECURITIES SENT TO THEIR REGISTERED ADDRESSES, TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR RESALES AND OTHER TRANSFERS OF THIS SECURITY TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO RESALES OR OTHER TRANSFERS OF RESTRICTED SECURITIES GENERALLY. THE HOLDER OF THIS SECURITY SHALL BE DEEMED, BY ITS ACCEPTANCE OR PURCHASE HEREOF, TO HAVE AGREED TO ANY SUCH AMENDMENT OR SUPPLEMENT (EACH OF WHICH SHALL BE CONCLUSIVE AND BINDING ON THE HOLDER HEREOF AND ALL FUTURE HOLDERS OF THIS SECURITY AND ANY SECURITIES ISSUED IN EXCHANGE OR SUBSTITUTION THEREFOR, WHETHER OR NOT ANY NOTATION THEREOF IS MADE HEREON).";

(x) that the Notes in registered form which are registered in the name of a nominee of DTC will bear an additional legend to the following effect unless otherwise agreed to by the Issuer:

"UNLESS THIS GLOBAL SECURITY IS PRESENTED BY AN AUTHORISED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION, ("DTC"), TO THE ISSUER OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY REGISTERED SECURITY ISSUED IN EXCHANGE FOR THIS GLOBAL SECURITY OR ANY PORTION HEREOF IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUIRED BY AN AUTHORISED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORISED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF IS WRONGFUL IN AS MUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

THIS GLOBAL SECURITY MAY NOT BE EXCHANGED, IN WHOLE OR IN PART, FOR A SECURITY REGISTERED IN THE NAME OF ANY PERSON OTHER THAN DTC OR A NOMINEE THEREOF EXCEPT IN THE LIMITED CIRCUMSTANCES SET FORTH IN THIS GLOBAL SECURITY, AND MAY NOT BE TRANSFERRED, IN WHOLE OR IN PART, EXCEPT IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THIS LEGEND. BENEFICIAL INTERESTS IN THIS GLOBAL SECURITY MAY NOT BE TRANSFERRED EXCEPT IN ACCORDANCE WITH THIS LEGEND.";

(xi) if it is outside the United States and is not a U.S. person, that if it should resell or otherwise transfer the Notes prior to the expiration of the distribution compliance period (defined as 40 days after the later of the commencement of the offering and the closing date with respect to the original issuance of the Notes), it will do so only (a)(i) outside the United States in compliance with Rule 903 or 904 under the Securities Act or (ii) to a QIB in compliance with Rule 144A and (b) in accordance with all applicable U.S. State securities laws; and it acknowledges that the Regulation S Global Notes will bear a legend to the following effect unless otherwise agreed to by the relevant Issuer:

"THIS SECURITY AND ANY GUARANTEE HEREOF HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT."; AND

(xii) that the relevant Issuer and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of such acknowledgements, representations or agreements made by it are no longer accurate, it shall promptly notify the relevant Issuer; and if it is acquiring any Notes as a fiduciary or agent for one or more accounts it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

No sale of Legended Notes in the United States to any one purchaser will be for less than U.S.$100,000 (or its foreign currency equivalent) principal amount and no Legended Note will be issued in connection with such a sale in a smaller principal amount. If the purchaser is a non-bank fiduciary acting on behalf of others, each person for whom it is acting must purchase at least U.S.$100,000 (or its foreign currency equivalent) of Registered Notes.

SELLING RESTRICTIONS

United States

The Notes and any guarantee thereof have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In connection with any Notes which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S ("**Regulation S Notes**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it will not offer, sell or deliver such Regulation S Notes (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution, as determined and certified by the relevant Dealer or, in the case of an issue of Notes on a syndicated basis, the relevant lead manager, of all Notes of the Tranche of which such Regulation S Notes are a part, within the United States or to, or for the account or benefit of, U.S. persons. Each Dealer has further agreed, and each further Dealer appointed under the Programme will be required to agree, that it will send to each dealer to which it sells any Regulation S Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Regulation S Notes within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

The Bearer Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

In respect of Bearer Notes where TEFRA D is specified in the applicable Final Terms the relevant Dealer will be required to represent and agree that:

(a) except to the extent permitted under U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D) (the D Rules), (i) it has not offered or sold, and during the restricted period it will not offer or sell, Bearer Notes to a person who is within the United States or its possessions or to a United States person, and (ii) it has not delivered and it will not deliver within the United States or its possessions definitive Bearer Notes that are sold during the restricted period;

(b) it has and throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Bearer Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(c) if it is a United States person, it is acquiring Bearer Notes for purposes of resale in connection with their original issuance and if it retains Bearer Notes for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(6);

(d) with respect to each affiliate that acquires Bearer Notes from it for the purpose of offering or selling such Notes during the restricted period, it repeats and confirms the representations and agreements contained in subparagraphs (a), (b) and (c) on such affiliate's behalf; and

(e) it will obtain from any distributor (within the meaning of U.S. Treas. Reg. Section 1.163-5(c)(2)(i)(D)(4)(ii)) that purchases any Bearer Notes from it pursuant to a written contract with such Dealer (other than a distributor that is one of its affiliates or is another Dealer), for the benefit of the Issuer and each other Dealer, the representations contained in, and such distributor's agreement to comply with, the provisions of sub-clauses (a), (b), (c) and (d) of this paragraph insofar as they relate to the D Rules, as if such distributor were a Dealer hereunder.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder, including the D Rules.

In respect of Bearer Notes where TEFRA C is specified in the applicable Final Terms, the relevant Dealer will be required to represent and agree that:

(a) it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions in connection with the original issuance of the Bearer Notes; and

(b) in connection with the original issuance of the Bearer Notes it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such prospective purchaser is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of the Bearer Notes.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Dealers may arrange for the resale of Registered Notes to QIBs pursuant to Rule 144A and each such purchaser of Notes is hereby notified that the Dealers may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. The minimum aggregate principal amount of Notes which may be purchased by a QIB pursuant to Rule 144A is U.S.$100,000 (or the approximate equivalent thereof in any other currency). To the extent that the relevant Obligor is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the relevant Obligor has agreed to furnish to holders of Notes and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

Each issuance of Index Linked Notes or Dual Currency Notes shall be subject to such additional U.S. selling restrictions as the relevant Obligors and the relevant Dealer may agree as a term of the issuance and purchase of such Notes, which additional selling restrictions shall be set out in the applicable Final Terms.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Notes to the public in that Relevant Member State:

(a) at any time to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) at any time to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the relevant Dealer or Dealers nominated by the relevant Obligors for any such offer; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive, **provided that** no such offer of Notes referred to in (a) to (d) above shall require the relevant Issuer or any Dealer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "**offer of Notes to the public**" in relation to any Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "**Prospectus Directive**" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year, (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of Section 19 of the FSMA by the relevant Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the relevant Obligors; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the United Kingdom.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Law No. 25 of 1948, as amended; the "**FIEA**") and each Dealer has agreed, and each further Dealer appointed under the Programme will be required to agree, that it will not offer or sell any Notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Control Law (Law No. 228 of 1949, as amended), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws, regulations and ministerial guidelines of Japan.

Cayman Islands

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to agree, that no offer or invitation to subscribe for the Notes has been or will be made to the public of the Cayman Islands.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) the Notes to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities; and

(b) the information contained in this Base Prospectus does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1984 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this Base Prospectus is not intended to lead to the conclusion of any contract of whatsoever nature within the territory of the United Arab Emirates.

Dubai International Financial Centre

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Notes to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

(a) an "Exempt Offer" in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "**DFSA**"); and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

Kingdom of Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires Notes pursuant to an offering should note that the offer of Notes is a private placement under either Article 9 (paragraph a, No.2) or Article 9 (paragraph a, No.3) (as specified in the applicable Final Terms) of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA Regulations**"). Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Notes to a Saudi investor will comply with the KSA Regulations.

The offer of Notes shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Notes pursuant to a private placement may not offer or sell those Notes to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and: (a) the Notes are offered or sold to a "Sophisticated Investor"; (b) the price to be paid for the Notes in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or (c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

Kingdom of Bahrain

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer any Notes to the Public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001) of Bahrain) in Bahrain.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Obligors nor any of the other Dealers shall have any responsibility therefor.

None of the Obligors or the Dealers represents that Notes may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the relevant Obligors and the relevant Dealer shall agree and as shall be set out in the applicable Final Terms.

GENERAL INFORMATION

Authorisation

The update of the Programme and the issue of Notes by each of ADCB and ADCB Finance Cayman have been duly authorised by a resolution of the Board of Directors of ADCB Finance Cayman dated 18 October 2010 and a resolution of the Management Executive Committee of ADCB on 11 October 2010. The giving of the Guarantee has been duly authorised by a resolution of the Board of Directors of ADCB dated 31 March 2009. In addition, any public issue of Notes under the Programme currently requires a further approval of the Board of Directors of ADCB, details of which will be set out in the relevant Final Terms.

Listing and admission to trading

It is expected that each Tranche of Notes which is to be admitted to the Official List and to trading on the London Stock Exchange's regulated market will be admitted separately as and when issued, subject only to the issue of a Global Note or Notes initially representing the Notes of such Tranche. Application has been made to the UK Listing Authority for Notes issued under the Programme to be admitted to the Official List and to the London Stock Exchange for such Notes to be admitted to trading on the London Stock Exchange's Regulated Market. The listing of the Programme in respect of Notes is expected to be granted on or before 27 October 2010.

Documents Available

For the period of 12 months following the date of this Base Prospectus, copies of the following documents will, when published, be available for inspection from the registered office of ADCB and from the specified office of the Paying Agent for the time being in London:

(a) the Memorandum and Articles of Association of ADCB Finance Cayman and the Memorandum and Articles of Association (with an English translation thereof) of ADCB;

(b) the audited financial statements (in English) of ADCB in respect of the financial years ended 31 December 2007, 31 December 2008 and 31 December 2009, in each case together with the audit reports prepared in connection therewith. ADCB currently prepares audited consolidated accounts on an annual basis;

(c) the most recently published audited annual financial statements (in English) of ADCB and the most recently published unaudited interim financial statements (if any and in English) of ADCB, in each case together with any audit or review reports prepared in connection therewith. ADCB Finance Cayman is not required by Cayman Islands law, and does not intend, to publish audited financial statements. ADCB currently prepares condensed unaudited consolidated interim accounts on a quarterly basis;

(d) the Programme Agreement, the Agency Agreement, the Guarantee, the Deed of Covenant, the Deed Poll and the forms of the Global Notes, the Notes in definitive form, the Receipts, the Coupons and the Talons;

(e) a copy of this Base Prospectus;

(f) any future Base Prospectuses, Base Prospectuses, information memoranda and supplements (including Final Terms, save that a Final Terms relating to a Note which is neither admitted to trading on a regulated market in the European Economic Area nor offered in the European Economic Area in circumstances where a Base Prospectus is required to be published under the Prospectus Directive will only be available for inspection by a holder of such Note and such holder must produce evidence satisfactory to the Issuers and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus and any other documents incorporated herein or therein by reference; and

(g) in the case of each issue of Notes admitted to trading on the London Stock Exchange's regulated market subscribed pursuant to a subscription agreement, the subscription agreement (or equivalent document).

Clearing Systems

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The appropriate Common Code and ISIN for each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the applicable Final Terms. In addition, the Issuer may make an application for any Notes in registered form to be accepted for trading in book-entry form by DTC. The CUSIP and/or CINS numbers for each Tranche of such Registered Notes, together with the relevant ISIN and (if applicable) common code, will be specified in the applicable Final Terms. If the Notes are to clear through an additional or alternative clearing system the appropriate information will be specified in the applicable Final Terms.

The address of Euroclear is Euroclear Bank SA/NV 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is Clearstream Banking, société anonyme, 42 Avenue JF Kennedy L-1885 Luxembourg. The address of DTC is 55 Water Street, New York, New York 10041, United States of America.

Conditions for determining price

The price and amount of Notes to be issued under the Programme will be determined by the relevant Issuer and the relevant Dealer at the time of issue in accordance with prevailing market conditions.

Significant or Material Change

There has been no significant change in the financial or trading position, and no material adverse change in the financial position or prospects, of ADCB Finance Cayman since 31 December 2009.

There has been no significant change in the financial or trading position of ADCB and its subsidiaries taken as a whole (the "**ADCB Group**") since 30 June 2010. Except as disclosed under the heading "*Risk Factors – Factors that may affect ADCB's ability to fulfil its obligations under Notes issued under the Programme as Issuer or Guarantor – ADCB's business, results of operations, financial condition and prospects have been adversely affected by credit risks and will likely continue to be affected by credit risks if economic conditions do not improve*", there has been no material adverse change in the financial position or prospects of ADCB since 31 December 2009.

Litigation

Neither ADCB, ADCB Finance Cayman nor any other member of the ADCB Group is or has been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which ADCB or ADCB Finance Cayman, as the case may be, is aware) in the 12 months preceding the date of this document which may have or have in such period had a significant effect on the financial position or profitability of ADCB, ADCB Finance Cayman and/or the ADCB Group, as the case may be.

Auditors

The auditors of ADCB are Deloitte & Touche (M.E.), who have audited ADCB's accounts (which have been prepared in accordance with IFRS), without qualification, for each of the two financial years ended on 31 December 2009. The auditors of ADCB are registered with the Ministry of Economy, UAE. The auditors of ADCB have no material interest in ADCB.

Post-issuance Information

Save as set out in the applicable Final Terms, the Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

Dealers Transacting with the Obligors

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services to the Obligors and their affiliates in the ordinary course of business.

APPENDIX – FINANCIAL INFORMATION

ABU DHABI COMMERCIAL BANK P.J.S.C.

Review report and interim financial information for the period ended June 30, 2010

ABU DHABI COMMERCIAL BANK P.J.S.C.

Review report and interim financial information for the period ended June 30, 2010

Deloitte.

Deloitte & Touche (M.E.)
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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

To the Board of Directors of
Abu Dhabi Commercial Bank P.J.S.C.
Abu Dhabi, U.A.E.

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Abu Dhabi Commercial Bank P.J.S.C. and its subsidiaries (together referred to as "the Bank") as of June 30, 2010 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six-month period then ended. Management is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34, "Interim Financial Reporting ("IAS 34")". Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects in accordance with IAS 34.

Deloitte & Touche

Abu Dhabi - U.A.E
P.O.Box 990
Deloitte & Touche

Saba Y. Sindaha
Registration Number 410
July 30, 2010

Member of
Deloitte Touche Tohmatsu

Condensed consolidated statement of financial position as at June 30, 2010

	Notes	As at June 30 2010 (unaudited) AED'000	As at December 31 2009 (audited) AED'000
ASSETS			
Cash and balances with Central Banks	3	4,827,275	4,139,015
Deposits and balances due from banks	4	17,313,361	18,348,988
Trading securities	5	205,495	86,561
Loans and advances, net	6	118,756,597	116,610,292
Derivative financial instruments	7	5,389,827	4,953,019
Investment securities	8	7,029,676	4,372,744
Investments in associates	9	4,964,375	4,582,659
Investment properties	10	490,328	549,492
Other assets	11	6,803,312	5,774,287
Property and equipment, net		818,781	791,721
Total assets		166,599,027	160,208,778
LIABILITIES			
Due to banks		4,107,338	4,738,201
Customers' deposits		96,830,559	86,299,957
Mandatory convertible securities – liability component		74,974	109,049
Short and medium term borrowings	12	23,831,793	28,921,804
Derivative financial instruments	7	5,653,057	4,689,489
Long term borrowings	13	8,506,733	8,619,494
Other liabilities	14	8,855,058	7,740,665
Total liabilities		147,859,512	141,118,659
EQUITY			
Share capital	15	4,810,000	4,810,000
Statutory and legal reserves		2,627,979	2,627,979
General and contingency reserves		2,150,000	2,150,000
Employees' incentive plan shares, net	16	(46,402)	(13,438)
Foreign currency translation reserve		(103,628)	(353,736)
Hedge reserve		(336,048)	(107,360)
Cumulative changes in fair values		(40,444)	(194,279)
Retained earnings		1,036,548	1,467,983
Capital notes	17	4,000,000	4,000,000
Mandatory convertible securities – equity component		4,633,883	4,633,883
Equity attributable to equity holders of the parent		18,731,888	19,021,032
Non-controlling interest		7,627	69,087
Total equity		18,739,515	19,090,119
Total liabilities and equity		166,599,027	160,208,778
Commitments and contingent liabilities	23	37,891,756	46,240,133

Eissa Al Suwaidi
Chairman

Ala'a Eraiqat
Chief Executive Officer

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated income statement (unaudited)
for the period ended June 30, 2010

		3 months ended June 30		6 months ended June 30	
		2010	2009	**2010**	2009
	Notes	**AED'000**	AED'000	**AED'000**	AED'000
Interest income	**18**	**1,771,617**	1,730,789	**3,442,952**	3,522,012
Interest expense	**19**	**(845,913)**	(814,615)	**(1,627,116)**	(1,870,420)
Net interest income		**925,704**	916,174	**1,815,836**	1,651,592
Distribution to depositors		**(25,779)**	(30,006)	**(44,218)**	(57,035)
Net interest income net of distribution to depositors		**899,925**	886,168	**1,771,618**	1,594,557
Net fees and commission income	**20**	**205,584**	292,128	**415,271**	496,097
Net gain on dealing in derivatives		**27,854**	25,748	**14,326**	29,916
Net gains from dealing in foreign currencies		**1,394**	35,553	**28,858**	47,231
Dividends income		**4,252**	303	**5,115**	4,633
Net (loss)/gain from trading and investment securities		**(11,105)**	987	**2,676**	989
Decrease in fair value of investment properties		**(35,000)**	(50,000)	**(35,000)**	(50,000)
Other operating income		**31,377**	40,550	**83,202**	93,441
Share of profit of associates		**86,106**	86,146	**194,136**	108,406
Operating income		**1,210,387**	1,317,583	**2,480,202**	2,325,270
Staff expenses		**(243,298)**	(233,981)	**(438,035)**	(440,634)
Depreciation		**(23,078)**	(19,277)	**(46,979)**	(37,235)
Other operating expenses		**(172,485)**	(147,533)	**(315,251)**	(298,176)
Impairment allowances	**21**	**(1,302,911)**	(612,699)	**(1,984,235)**	(890,091)
Operating expenses		**(1,741,772)**	(1,013,490)	**(2,784,500)**	(1,666,136)
(Loss)/profit from operations before taxation		**(531,385)**	304,093	**(304,298)**	659,134
Overseas income tax write back/(expense)		**433**	(1,068)	**(1,645)**	(2,417)
Net (loss)/profit for the period		**(530,952)**	303,025	**(305,943)**	656,717
Attributed to:					
Equity holders of the parent		**(527,325)**	294,861	**(308,768)**	648,566
Non-controlling interest		**(3,627)**	8,164	**2,825**	8,151
Net (loss)/profit for the period		**(530,952)**	303,025	**(305,943)**	656,717
Basic (loss)/earnings per share (AED)	**22**	**(0.09)**	0.06	**(0.07)**	0.13

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of comprehensive income (unaudited)
for the period ended June 30, 2010

	3 months ended June 30		6 months ended June 30	
	2010	2009	**2010**	2009
	AED'000	AED'000	**AED'000**	AED'000
Net (loss)/profit for the period	**(530,952)**	303,025	**(305,943)**	656,717
Exchange difference arising on translation of foreign operations	**49,989**	145,612	**259,638**	(81,433)
Net loss on hedge of net investment in foreign operation	**(60,581)**	(39,652)	**(228,688)**	(39,652)
Fair value changes reversed on disposal of available for sale investments	**(898)**	-	**10,386**	16
Fair value changes on available for sale investments	**50,094**	131,201	**103,289**	85,944
Share in other comprehensive income statement items of associate	**30,630**	-	**30,630**	420
Total comprehensive (loss)/income for the period	**(461,718)**	540,186	**(130,688)**	622,012
Attributed to:				
Equity holders of the parent	**(458,091)**	532,022	**(133,513)**	613,861
Non-controlling interest	**(3,627)**	8,164	**2,825**	8,151
Total comprehensive (loss)/income for the period	**(461,718)**	540,186	**(130,688)**	622,012

The accompanying notes form an integral part of these condensed consolidated financial statements.

ABU DHABI COMMERCIAL BANK P.J.S.C.

Condensed consolidated statement of changes in equity (unaudited) for the period ended June 30, 2010

	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Employees' incentive plan shares, net AED'000	Foreign currency translation reserve AED'000	Hedge reserve AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Capital notes AED'000	Mandatory convertible securities - equity component AED'000	Attributable to equity holders of the parent AED'000	Non-controlling interest AED'000	Total equity AED'000
Balance at January 1, 2010	4,810,000	1,336,383	1,291,596	2,000,000	150,000	(13,438)	(353,736)	(107,360)	(194,279)	1,467,983	4,000,000	4,633,883	19,021,032	69,087	19,090,119
Net (loss)/profit for the period	-	-	-	-	-	-	-	-	-	(308,768)	-	-	(308,768)	2,825	(305,943)
Exchange difference arising on translation of foreign	-	-	-	-	-	-	259,638	-	-	-	-	-	259,638	-	259,638
Net loss on hedge of net investment in foreign operation	-	-	-	-	-	-	-	(228,688)	-	-	-	-	(228,688)	-	(228,688)
Fair value changes on available for sale investments	-	-	-	-	-	-	-	-	103,289	-	-	-	103,289	-	103,289
Fair value changes reversed on disposal of available for sale investments	-	-	-	-	-	-	-	-	10,386	-	-	-	10,386	-	10,386
Share of other comprehensive income statement items of associate	-	-	-	-	-	-	(9,530)	-	40,160	-	-	-	30,630	-	30,630
Total comprehensive profit/(loss) for the period	-	-	-	-	-	-	250,108	(228,688)	153,835	(308,768)	-	-	(133,513)	2,825	(130,688)
Dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	-	(66,562)	(66,562)
Capital notes coupon paid	-	-	-	-	-	-	-	-	-	(122,667)	-	-	(122,667)	-	(122,667)
Shares granted (Note16)	-	-	-	-	-	(47,085)	-	-	-	-	-	-	(47,085)	-	(47,085)
Shares – vested portion (Note16)	-	-	-	-	-	14,121	-	-	-	-	-	-	14,121	-	14,121
Increase in non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	2,277	2,277
Balance at June 30, 2010	4,810,000	1,336,383	1,291,596	2,000,000	150,000	(46,402)	(103,628)	(336,048)	(40,444)	1,036,548	4,000,000	4,633,883	18,731,888	7,627	18,739,515

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of changes in equity (unaudited) for the period ended June 30, 2010 (continued)

	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Employees' incentive plan shares, net AED'000	Foreign currency translation reserve AED'000	Proposed dividends AED'000	Hedge reserve AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Capital notes AED'000	Mandatory convertible securities - equity component AED'000	Attributable to equity holders of the parent AED'000	Non-controlling interest AED'000	Total equity AED'000
Balance at January 1, 2009	4,810,000	1,336,383	1,291,596	2,000,000	150,000	(25,708)	(392,022)	481,000	-	(625,014)	2,147,431	-	4,633,883	15,807,549	107,603	15,915,152
Net profit for the period	-	-	-	-	-	-	-	-	-	-	648,566	-	-	648,566	8,151	656,717
Exchange difference arising on translation of foreign	-	-	-	-	-	-	(81,433)	-	-	-	-	-	-	(81,433)	-	(81,433)
Net loss on hedge of net investment in foreign operation	-	-	-	-	-	-	-	-	(39,652)	-	-	-	-	(39,652)	-	(39,652)
Fair value changes on available for sale investments	-	-	-	-	-	-	-	-	-	85,944	-	-	-	85,944	-	85,944
Fair value changes reversed on disposal of available for sale investments	-	-	-	-	-	-	-	-	-	16	-	-	-	16	-	16
Share of other comprehensive income statement items of associate	-	-	-	-	-	-	(7,950)	-	-	8,370	-	-	-	420	-	420
Total comprehensive (loss)/ profit for the period	-	-	-	-	-	-	(89,383)	-	(39,652)	94,330	648,566	-	-	613,861	8,151	622,012
Dividends paid	-	-	-	-	-	-	-	(481,000)	-	-	-	-	-	(481,000)	(88,479)	(569,479)
Capital notes issued	-	-	-	-	-	-	-	-	-	-		4,000,000	-	4,000,000	-	4,000,000
Shares – vested portion (Note16)	-	-	-	-	-	6,420	-	-	-	-	-	-	-	6,420	-	6,420
Balance at June 30, 2009	4,810,000	1,336,383	1,291,596	2,000,000	150,000	(19,288)	(481,405)	-	(39,652)	(530,684)	2,795,997	4,000,000	4,633,883	19,946,830	27,275	19,974,105

The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of cash flows (unaudited) for the period ended June 30, 2010

	6 months ended June 30	
	2010	2009
	AED'000	AED'000
OPERATING ACTIVITIES		
Net (loss)/profit before taxation	**(304,298)**	659,134
Adjustments for:		
Depreciation on property and equipment	**46,979**	37,235
Dividends income	**(5,115)**	(4,633)
Decrease in fair value of investment properties	**35,000**	50,000
Impairment allowance on doubtful loans and advances	**1,786,795**	596,286
Recovery of allowance for doubtful loans and advances	**(100,041)**	(59,885)
Impairment allowance on credit default swaps	**79,182**	84,185
Impairment allowance on investment securities	**218,299**	269,505
Realised and unrealised net gain from available for sale and trading securities	**(2,676)**	(989)
Share of profit of associates, net	**(194,136)**	(108,406)
Imputed interest on mandatory convertible securities	**(34,075)**	(30,171)
Employees' incentive plan benefit expense	**14,121**	6,420
Operating profit before changes in operating assets and liabilities	**1,540,035**	1,498,681
Increase in due from banks	**(3,760,175)**	(275,537)
(Increase)/decrease in net trading derivative financial instruments	**(35,995)**	39,088
Increase in loans and advances	**(3,833,060)**	(5,892,993)
Increase in other assets	**(216,438)**	(2,240,519)
Increase in due to banks	**395,815**	486,643
Increase in customers' deposits	**10,530,602**	4,811,682
Increase in other liabilities	**222,924**	2,454,879
Cash from operations	**4,843,708**	881,924
Overseas taxation paid	**(1,645)**	(2,417)
Net cash from operations	**4,842,063**	879,507
INVESTING ACTIVITIES		
Dividend received from associate	**102,390**	62,949
Dividends income	**5,115**	4,633
Purchase of trading and available for sale investment securities	**(3,372,754)**	(785,513)
Net proceeds from disposal of trading and available for sale investment securities	**494,940**	469,290
Purchase of property and equipment	**(49,875)**	(175,319)
Net cash used in investing activities	**(2,820,184)**	(423,960)
FINANCING ACTIVITIES		
Net repayment of short and medium term borrowings	**(4,868,705)**	(1,821,125)
Proceeds from issue of long term capital notes	**-**	4,000,000
Dividends paid to equity shareholders	**-**	(481,000)
Dividends paid to non-controlling interest	**(66,562)**	(88,479)
Capital notes coupon paid	**(122,667)**	-
Increase in non-controlling interest	**2,277**	-
Purchase of employees' incentive plan shares	**(47,085)**	-
Net cash (used in)/from financing activities	**(5,102,742)**	1,609,396
Net (decrease)/increase in cash and cash equivalents	**(3,080,863)**	2,064,943
Cash and cash equivalents at the beginning of the period	**19,373,919**	15,144,109
Cash and cash equivalents at the end of the period	**16,293,056**	17,209,052

The accompanying notes form an integral part of these condensed consolidated financial statements.

Notes to the condensed consolidated financial statements for the period ended June 30, 2010

1 General

Abu Dhabi Commercial Bank P.J.S.C. ("ADCB") is a public joint stock company with limited liability incorporated in the Emirate of Abu Dhabi, United Arab Emirates (U.A.E.). ADCB carries on retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management activities through its network of forty seven branches in the U.A.E., two branches in India, its subsidiaries, joint ventures and associates.

The registered head office of ADCB is at Abu Dhabi Commercial Bank Head Office Building, Salam Street, Plot C-33, Sector E-11, P. O. Box 939, Abu Dhabi, U.A.E.

ADCB is registered as a public joint stock company in accordance with the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended).

2 Summary of significant accounting policies

2.1 Basis of preparation

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (IASB) and also comply with the applicable requirements of the laws in the U.A.E..

The same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation and presentation of the Bank's consolidated financial statements for the year ended December 31, 2009.

The condensed consolidated financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Bank's functional and presentation currency.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated October 12, 2008, accounting policies relating to investment securities and investment properties have been disclosed in the condensed consolidated financial statements.

2.2 Standards and Interpretations in issue not yet effective

At the date of authorisation of these condensed consolidated financial statements, the following new and revised Standards and Interpretations were in issue but not yet effective:

New Interpretations and amendments to Interpretations:	**Effective for annual periods beginning on or after**
• IAS 32 (revised) *Financial Instruments: Presentation* – Amendments relating to classification of Rights Issue	February 1, 2010
• IAS 24 *Related Party Disclosures* – Amendment on disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a Government	January 1, 2011

2 Summary of significant accounting policies (continued)

2.2 Standards and Interpretations in issue not yet effective (continued)

New Interpretations and amendments to Interpretations:	**Effective for annual periods beginning on or after**
• IFRS 9 Financial Instruments: *Classification and Measurement* (intended as complete replacement for IAS 39 and IFRS 7)	January 1, 2013
• IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*	July 1, 2010
• Amendment to IFRIC 14: *IAS 19: The limit on a defined Benefit Asset, Minimum Funding Requirement and their interaction*	January 1, 2011
• Amendments to IFRS 7, IAS 1, IAS 22, IAS 34, and IFRIC 13 resulting from May 2010 *Annual Improvements to IFRSs*.	Majority effective for annual periods beginning on or after January 1, 2011
• IFRS 1*First time Adoption of International Financial Reporting Standards* – Accounting policy change in the year of adoption, Revaluation basis as deemed cost and Use of deemed cost for operations subject to rate regulation	January 1, 2011
• IFRS 3 *Business Combinations (2008)* – Measurement of non-controlling interests, Un-replaced and voluntary replaced share-based payment awards and Transitional requirements for contingent consideration from a business combination that occurred before the effective date of IFRS 3(2008)	July 1, 2010
• IFRS 7 *Financial Instruments Disclosures* – Clarifications of certain disclosures	January 1, 2011
• IAS 1 *Presentation of Financial Statements* – Clarification of statement of changes in equity	January 1, 2011
• IAS 27 *Consolidated and Separate Financial Statements (2008)* – Transitional requirements for consequential amendments as a result IAS 27 (2008)	July 1, 2010
• IAS 34 *Interim Financial Reporting* – Significant events and transactions	January 1, 2011
• IFRIC 13 *Customer Loyalty Programmes* – Fair value of award credit	January 1, 2011

Management anticipates that these amendments will be adopted in the Bank’s consolidated financial statements for the initial period when they become effective. Management is in the process of considering the potential impact of the adoption of these amendments.

2 Summary of significant accounting policies (continued)

2.3 Basis of consolidation

These condensed consolidated financial statements incorporate the financial statements of Abu Dhabi Commercial Bank P.J.S.C. and its subsidiaries, associates and joint ventures (collectively referred to as the "Bank"). The entities controlled by the Bank have been treated as subsidiaries. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. All significant inter-company balances, income and expense items are eliminated on consolidation.

Changes in the bank's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

2.4 Trading and Investment securities

Trading and investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for based on their classification.

Bank's investments are classified into the following categories depending on the nature and purpose of the investment:

i) Trading securities which include investments at fair value through profit or loss (FVTPL)
ii) Investment securities which include available for sale (AFS) and held-to-maturity investments (HTM)

Fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or
- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

2 Summary of significant accounting policies (continued)

2.4 Trading and Investment securities (continued)

Fair value through profit or loss (FVTPL) (continued)

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognised in profit or loss.

Held-to-maturity

Investments which have fixed or determinable payments with fixed maturities which the Bank has the intention and ability to hold to maturity, are classified as held to maturity investments.

Held-to-maturity investments are initially recognized at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses, with revenue recognized on an effective yield basis. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective interest rate method.

Any gain or loss on such investments is recognised in profit or loss when the investment is derecognised or impaired.

If there is objective evidence that an impairment on held to maturity investments carried at amortised cost has been incurred, the amount of impairment loss recognized is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the investments original effective interest rate, with the resulting impairment loss, if any, in the profit or loss.

2 Summary of significant accounting policies (continued)

2.4 Trading and Investment securities (continued)

Held-to-maturity (continued)

Investments classified as held to maturity and not close to their maturity, cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to interest rate or prepayment risk, reflecting the longer-term nature of these investments.

Available for sale

Investments not classified as either "fair value through profit or loss" or "held to maturity" are classified as "available for sale".

Available for sale investments are initially recognized at fair value plus any directly attributable transaction cost and are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and tested for impairment, if any.

Gains and losses arising from changes in fair value are recognised in other comprehensive income statement and recorded in cumulative changes in fair value with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in other comprehensive income statement in the cumulative changes in fair value is included in the profit or loss for the period.

Dividends on available for sale equity instruments are recognised in the profit or loss when the Bank's right to receive the dividends is established.

If available for sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortization) and the current fair value, less any previous impairment loss recognised in the profit or loss is removed from other comprehensive income statement and recognized in the profit or loss.

Notes to the condensed consolidated financial statements
for the period ended June 30, 2010 (continued)

2 Summary of significant accounting policies (continued)

2.4 Trading and Investment securities (continued)

Available for sale (continued)

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the profit or loss when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in other comprehensive income statement. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss to the extent that the carrying value of the investment does not exceed what it would have been had the impairment not been recognised at the date of reversal of impairment.

- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised directly in other comprehensive income statement. Impairment losses recognised on the equity security are not reversed through the profit or loss.

Reclassifications

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short term. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

Derecognition of investment securities

The Bank derecognizes a investment security only when the contractual rights to the cash flows from the investment expire, or when it transfers the investment and substantially all the risks and rewards of ownership of the investment to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognises a collateralized borrowing for the proceeds received.

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

2 Summary of significant accounting policies (continued)

2.5 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is reflected at valuation based on fair value at the reporting period date. The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The fair value is determined on periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the profit or loss in the period in which these gains or losses arise.

3 Cash and balances with Central Banks

	June 30 2010 (unaudited) AED'000	December 31 2009 (audited) AED'000
Within the U.A.E.	**4,801,521**	4,113,522
Outside the U.A.E.	**25,754**	25,493
	4,827,275	4,139,015

4 Deposits and balances due from banks

	June 30 2010 (unaudited) AED'000	December 31 2009 (audited) AED'000
Within the U.A.E.	**7,546,952**	5,719,958
Outside the U.A.E.	**9,766,409**	12,629,030
	17,313,361	18,348,988

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

5 Trading securities

	June 30 2010 (unaudited) AED'000	December 31 2009 (audited) AED'000
Quoted – Equity instruments	**205,495**	86,561

The geographical concentration is as follows:

As at June 30, 2010 (unaudited) **Trading securities**	**U.A.E. AED'000**	**Other G.C.C. countries AED'000**	**Rest of the world AED'000**	**Total AED'000**
Quoted – Equity instruments	**5,088**	**72,587**	**127,820**	**205,495**

As at December 31, 2009 (audited) Trading securities	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Quoted – Equity instruments	6,962	67,125	12,474	86,561

The fair value of trading securities is based on quoted market prices.

Of the total trading securities, trading securities amounting to AED 89,037 thousand (December 31, 2009: AED 86,561 thousand) represent equity investments held by ADCB MSCI Arabian Markets Index Fund, a subsidiary of the Bank that present the Bank with an opportunity of return through dividend income and trading gains. They have no fixed maturity or coupon rate.

Notes to the condensed consolidated financial statements
for the period ended June 30, 2010 (continued)

6 Loans and advances, net

	June 30 2010 (unaudited) AED'000	December 31 2009 (audited) AED'000
Overdrafts (Retail and Corporate)	**15,477,613**	15,537,675
Retail loans	**13,289,390**	13,642,012
Corporate loans	**90,470,995**	87,781,570
Credit cards	**1,560,093**	1,442,136
Islamic financing	**2,423,454**	1,530,043
Other facilities	**696,071**	909,113
	123,917,616	120,842,549
Less: Allowance for impairment	**(5,161,019)**	(4,232,257)
	118,756,597	116,610,292

Movement of the individual and collective impairment allowance on loans and advances is as follows:

	June 30, 2010 (unaudited)			December 31, 2009 (audited)		
	Individual impairment AED'000	**Collective impairment AED'000**	**Total AED'000**	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
At January 1	**2,727,403**	**1,504,854**	**4,232,257**	930,739	1,059,272	1,990,011
Charge for the period/ year	**1,933,681**	**(146,886)**	**1,786,795**	2,618,562	459,001	3,077,563
Recoveries	**(100,041)**	**-**	**(100,041)**	(109,248)	-	(109,248)
Net amounts written off	**(757,869)**	**(168)**	**(758,037)**	(713,311)	(13,509)	(726,820)
Currency translation	**37**	**8**	**45**	661	90	751
Balance at	**3,803,211**	**1,357,808**	**5,161,019**	2,727,403	1,504,854	4,232,257

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

6 Loans and advances, net (continued)

The economic sector composition of the loans and advances portfolio net of interest in suspense is as follows:

	June 30, 2010 (unaudited)			December 31, 2009 (audited)		
	Within the U.A.E. AED'000	**Outside the U.A.E. AED'000**	**Total AED'000**	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000
Economic sector						
Agriculture	**11,234**	**-**	**11,234**	10,831	-	10,831
Energy	**3,689,516**	**257,182**	**3,946,698**	3,292,251	247,967	3,540,218
Trading	**902,329**	**129,349**	**1,031,678**	1,161,429	313,138	1,474,567
Contractor finance	**2,804,916**	**238,112**	**3,043,028**	2,646,334	740,156	3,386,490
Development & construction	**18,926,930**	**804,545**	**19,731,475**	17,709,746	855,805	18,565,551
Real estate investment	**13,972,180**	**101,233**	**14,073,413**	11,044,961	112,027	11,156,988
Transport	**2,453,288**	**228,494**	**2,681,782**	3,325,111	240,185	3,565,296
Personal – Retail loans	**17,045,455**	**6,659**	**17,052,114**	16,319,076	7,738	16,326,814
Personal – collateralised	**18,820,467**	**262,933**	**19,083,400**	18,307,694	559,342	18,867,036
Government	**2,295,177**	**-**	**2,295,177**	1,741,839	-	1,741,839
Financial institutions	**5,941,265**	**1,494,810**	**7,436,075**	5,858,927	2,325,129	8,184,056
Manufacturing	**2,144,114**	**83,818**	**2,227,932**	2,459,748	118,373	2,578,121
Services	**26,350,523**	**4,900,372**	**31,250,895**	26,371,314	5,031,395	31,402,709
Others	**52,715**	**-**	**52,715**	42,033	-	42,033
	115,410,109	**8,507,507**	**123,917,616**	110,291,294	10,551,255	120,842,549
Less: Allowance for impairment			**(5,161,019)**			(4,232,257)
Total			**118,756,597**			116,610,292

7 Derivative financial instruments

The fair values of derivative financial instruments held are set out below:

	Fair values	
	Assets AED'000	**Liabilities AED'000**
At June 30, 2010 (unaudited)		
Derivatives held for trading		
Forward foreign exchange contracts	**427,211**	**415,942**
Interest rate swaps and forward rate agreements	**4,455,592**	**4,407,149**
Options	**97,979**	**97,361**
Futures	**5,338**	**3,037**
Commodity forwards	**91,845**	**82,389**
Energy swaps	**6,150**	**5,600**
	5,084,115	**5,011,478**
Derivatives held for hedging	**305,712**	**641,579**
	5,389,827	**5,653,057**

	Fair values	
	Assets AED'000	Liabilities AED'000
At December 31, 2009 (audited)		
Derivatives held for trading		
Forward foreign exchange contracts	687,618	688,361
Interest rate swaps and forward rate agreements	3,479,411	3,459,607
Options	267,054	265,910
Futures	5,309	3,790
Commodity forwards	34,579	20,062
Energy swaps	21,289	20,888
	4,495,260	4,458,618
Derivatives held for hedging	457,759	230,871
	4,953,019	4,689,489

The derivatives held for hedging consist of interest rate swaps, cross currency swaps and foreign exchange forward contracts.

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

8 Investment securities

	June 30, 2010 (unaudited)			
	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Available for sale investments				
Quoted:				
Floating rate notes (FRNs)	**576,157**	**-**	**48,453**	**624,610**
Collateralised debt obligations (CDOs)	**-**	**-**	**90,883**	**90,883**
Equity instruments	**9,875**	**-**	**287**	**10,162**
Bonds	**2,390,579**	**188,463**	**418,361**	**2,997,403**
Government securities	**1,031,734**	**1,151,501**	**329,371**	**2,512,606**
Total Quoted	**4,008,345**	**1,339,964**	**887,355**	**6,235,664**
Unquoted:				
Equity instruments	**223,911**	**-**	**33**	**223,944**
Bonds	**528,654**	**-**	**-**	**528,654**
Mutual funds	**41,414**	**-**	**-**	**41,414**
Total Unquoted	**793,979**	**-**	**33**	**794,012**
Total available for sale investments	**4,802,324**	**1,339,964**	**887,388**	**7,029,676**

Bonds in Quoted investment include Bonds of fair value AED 992,439 thousand in public sector companies.

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

8 Investment securities (continued)

	December 31, 2009 (audited)			
	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Available for sale investments				
Quoted:				
Floating rate notes (FRNs)	-	-	58,644	58,644
Collateralised debt obligations (CDOs)	-	-	210,706	210,706
Equity instruments	13,011	-	335	13,346
Bonds	1,837,706	2,057	52,046	1,891,809
Government securities	402,542	379,000	313,783	1,095,325
Total Quoted	2,253,259	381,057	635,514	3,269,830
Unquoted:				
Floating rate notes (FRNs)	-	-	144,988	144,988
Equity instruments	229,128	-	66	229,194
Bonds	687,319	-	-	687,319
Mutual funds	41,413	-	-	41,413
Total Unquoted	957,860	-	145,054	1,102,914
Total available for sale investments	3,211,119	381,057	780,568	4,372,744

Bonds in Quoted investment include Bonds of fair value AED 547,821 thousand in public sector companies.

During 2009, the Bank entered into repurchase agreements and total return swap agreements whereby Bonds were pledged and held by counter parties as collateral. The following table reflects the carrying value of these Bonds and the associated financial liabilities:

	June 30, 2010 (unaudited)		December 31, 2009 (audited)	
	Carrying value of pledged assets AED'000	**Carrying value of associated liabilities AED'000**	Carrying value of pledged assets AED'000	Carrying value of associated liabilities AED'000
Total return swaps	**614,444**	**622,374**	616,521	636,394
Repurchase financing	**596,835**	**440,760**	578,244	440,760
	1,211,279	**1,063,134**	1,194,765	1,077,154

Notes to the condensed consolidated financial statements
for the period ended June 30, 2010 (continued)

8 Investment securities (continued)

The movement in impairment allowance is as follows:

	June 30 2010 (unaudited) AED'000	December 31 2009 (audited) AED'000
At January 1	**426,077**	410,609
Charge for the period/year (Note 21)	**218,299**	540,109
Reversal on disposal of available for sale investments	**(88,674)**	(254,032)
Exchange difference	**(10,584)**	1,067
Investments written off	**-**	(271,676)
Balance at	**545,118**	426,077

The investment securities include Structured Finance Assets, such as Collateralized Debt Obligations (CDOs), and Cash flow CDOs, which are dependent on the performance of collateral located outside U.A.E., primarily corporate credit assets in the U.S.A., Western Europe and Asia.

The nominal value and fair value of these securities at June 30, 2010 amounted to AED 680,708 thousand and AED 139,336 thousand respectively (December 31, 2009 - AED 933,249 thousand and AED 414,338 thousand respectively). These securities have been negatively impacted by the global financial crisis and subsequent recession that stemmed from the U.S.A. subprime situation, corporate credit events and corporate insolvencies in both the U.S.A. and Europe, as well as ongoing liquidity shortages. The continued uncertainty in long-term outlook for the global economy and increased volatility in credit default spreads also continues to negatively impact fair values. The above exposure is net of collective impairment allowance amounting to AED 477,785 thousand (December 31, 2009 - AED 404,663 thousand) against the total above exposure.

The impairment allowances have been estimated by the Banks' management based on the present market and the expected economic conditions of the underlying investments.

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

9 Investments in associates

Name of associate	**June 30 2010 (unaudited) AED'000**	December 31 2009 (audited) AED'000
RHB Capital Berhad	**4,871,197**	4,474,784
Al Nokhitha Fund	**65,294**	73,150
ADCB MSCI U.A.E. Index Fund	**27,884**	34,725
Carrying value	**4,964,375**	4,582,659

Details of Bank's investment in associates are as follows:

				Ownership Interest	
	Name of associate	**Principal activities**	**Country of incorporation**	**June 30 2010**	December 31 2009
(a)	RHB Capital Berhad	Wholesale, retail and Islamic banking, financial advisory and underwriting, insurance and property investment.	Malaysia	**25%**	25%
(b)	Al Nokhitha Fund	Investing in Equities listed in Abu Dhabi Exchange, Dubai Financial Market and in any other recognised stock exchanges of the GCC countries.	U.A.E.	**21%**	22%
(c)	ADCB MSCI U.A.E. Index Fund	Investing in Equities listed in Abu Dhabi Exchange, Dubai Financial Market, Dubai International Financial Exchange determined by MSCI UAE Index ("Index Securities").	U.A.E.	**37%**	30%

Notes to the condensed consolidated financial statements
for the period ended June 30, 2010 (continued)

9 Investments in associates (continued)

(a) On May 14, 2008 the Bank acquired through its wholly owned subsidiary ADCB Holdings (Malaysia) Sdn Berhad a 25% equity stake in RHB Capital Berhad, Malaysia ("Associate").

The cost of acquisition over the Bank's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of the acquisition amounting to AED 2,048,390 thousand was identified as goodwill and included in the carrying value of investment in associate. Management has assessed the total carrying value of investment in associate for impairment and determined that no impairment has occurred.

The Bank's share of profit of associate is adjusted for amortization of tangible and intangible assets identified during goodwill assessment and also appropriately adjusted for the differences arising on conversion from Malaysian Accounting Standards to IFRS.

The equity instruments of RHB Capital Berhad are quoted in Bursa Stock Exchange, Malaysia and the quoted value of the investment at June 30, 2010 amounted to AED 3,591,440 thousand (December 31, 2009 – AED 3,061,303 thousand).

The Bank partially hedged its currency translation risk in net investment in RHB Capital Berhad through foreign exchange forward contracts and designated these contracts as hedging derivatives. The hedging instruments resulted in losses of AED 337,508 thousand (December 31, 2009 losses of AED 107,360 thousand) which have been recognised in other comprehensive income. No amounts are withdrawn from equity during the period as there was no disposal of net investment in associate.

(b) During 2009, the Bank increased its ownership interest in Al Nokhita Fund and obtained significant influence over the fund. This investment in associate is held by a subsidiary of the Bank – Al Nokhitha Feeder Fund.

(c) During 2009, the Bank increased its ownership interest in ADCB MSCI U.A.E. Index Fund and obtained significant influence over the fund. This investment in associate is held by a subsidiary of the Bank – MSCI UAE Index Fund Feeder Fund.

9 Investments in associates (continued)

The latest available financial information in respect of Bank's associates are as of March 31, 2010 and are summarised as follows:

	AED'000
Total assets	**130,881,580**
Total liabilities	**(119,955,980)**
Net assets	**10,925,600**
Bank's share in net asset of associates	**2,731,798**
Total interest and other operating income	**1,183,127**
Total profit for the period	**473,511**
Bank's share in profit of associates	**118,224**

10 Investment properties

	June 30 2010 (unaudited) AED'000	December 31 2009 (audited) AED'000
At January 1	**549,492**	632,492
Decrease in fair value of investment properties	**(35,000)**	(83,000)
Transfer to property and equipment, net	**(24,164)**	-
Balance at	**490,328**	549,492

The fair value of the Bank's investment properties has been arrived at on the basis of valuations carried out by independent valuers that are not related to the Bank. The fair value of investment properties is estimated periodically by considering recent prices for similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at these prices. The effective date of the valuation was June 30, 2010. All the investment properties of the Bank are located within the U.A.E.

During the period, the Bank decided to utilize a unit of one of its investment property for its own use. Accordingly, AED 24,164 thousand which represents the fair value of the investment property on the date of such change in use has been transferred to property and equipment.

11 Other assets

	June 30 2010 (unaudited) AED'000	December 31 2009 (audited) AED'000
Interest receivable	**836,641**	607,052
Withholding tax	**53,538**	37,743
Prepayments	**114,650**	121,985
Clearing receivables	**-**	106
Acceptances	**5,444,097**	4,631,510
Others	**354,386**	375,891
	6,803,312	5,774,287

Acceptances arise when the Bank guarantees payments against documents drawn under letters of credit.

Notes to the condensed consolidated financial statements
for the period ended June 30, 2010 (continued)

12 Short and medium term borrowings

The details of short and medium term borrowings as at June 30, 2010 (unaudited) are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Total AED'000
Unsecured notes	Australian Dollar (AUD)	-	157,232	-	157,232
	Hong Kong Dollar (HKD)	47,178	94,356	-	141,534
	Japanese Yen (JPY)	-	207,000	-	207,000
	Pound Sterling (GBP)	-	2,764,392	-	2,764,392
	Slovak Koruna (SKK)	-	112,384	-	112,384
	South African Rand (ZAR)	-	48,127	-	48,127
	Swiss Franc (CHF)	1,019,758	-	-	1,019,758
	U.A.E. Dirham (AED)	2,200,000	-	1,253,000	3,453,000
	US Dollar (US$)	36,730	36,730	3,673,000	3,746,460
		3,303,666	3,420,221	4,926,000	11,649,887
Syndicated loans	US Dollar (US$)	3,658,308	7,162,350	-	10,820,658
Borrowings through total return swaps	US Dollar (US$)	-	-	429,374	429,374
	U.A.E. Dirham (AED)	-	-	193,000	193,000
Borrowings through repurchase agreements	US Dollar (US$)	-	-	440,760	440,760
		6,961,974	10,582,571	5,989,134	23,533,679
Fair value adjustment on short and medium term borrowings being hedged					298,114
					23,831,793

Included in short and medium term borrowings is a carrying amount of AED 1,991,207 thousand which have been hedged using cross currency swaps.

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

12 Short and medium term borrowings (continued)

The details of short and medium term borrowings as at December 31, 2009 (audited) are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Total AED'000
Unsecured notes	Australian Dollar (AUD)	-	164,605	-	164,605
	Hong Kong Dollar (HKD)	-	142,092	-	142,092
	Japanese Yen (JPY)	-	198,734	-	198,734
	Pound Sterling (GBP)	-	2,950,337	-	2,950,337
	Slovak Koruna (SKK)	-	131,401	-	131,401
	South African Rand (ZAR)	-	49,652	-	49,652
	Swiss Franc (CHF)	532,396	1,064,792	-	1,597,188
	Singapore Dollar (SGD)	379,645	-	-	379,645
	U.A.E. Dirham (AED)	900,000	1,300,000	1,253,000	3,453,000
	US Dollar (US$)	3,746,460	73,460	3,673,000	7,492,920
		5,558,501	6,075,073	4,926,000	16,559,574
Syndicated loans	US Dollar (US$)	3,291,008	3,789,801	3,739,849	10,820,658
Borrowings through total return swaps	US Dollar (US$)	-	-	402,194	402,194
	U.A.E. Dirham (AED)	-	-	234,200	234,200
Borrowings through repurchase agreements	US Dollar (US$)	-	-	440,760	440,760
		8,849,509	9,864,874	9,743,003	28,457,386
Fair value adjustment on short and medium term borrowings being hedged					464,418
					28,921,804

Included in short and medium term borrowings is a carrying amount of AED 2,523,792 thousand which have been hedged using cross currency swaps.

Notes to the condensed consolidated financial statements
for the period ended June 30, 2010 (continued)

12 Short and medium term borrowings (continued)

Interest on unsecured notes are payable in arrears and the coupon rates at June 30, 2010 (unaudited) are as follows:

Currency	Within 1 year	1-3 years	3-5 years
AUD	-	3 months AUD-BBSW plus 30 basis points	-
HKD	3 months HIBOR offer rate plus 35 basis points	3 months HIBOR offer rate plus 29 basis points	-
JPY	-	Fixed rate of 1.66% p.a.	-
GBP	-	Fixed rate of 5.625% p.a.	-
SKK	-	3 months BRIBOR plus 11 basis points	-
ZAR	-	3 months JIBAR plus 41 basis points	-
CHF	Fixed rate of 2.76% p.a.	-	-
AED	3 months EIBOR plus 200 to 250 basis points	-	Fixed rate of 6% p.a.
US$	3 months LIBOR plus 35 basis points	3 months LIBOR plus 110 basis points	Fixed rate of 4.75% p.a.

Interest on the syndicated loans are payable in monthly coupons in arrears with 25 basis points to 27.5 basis points over 1 month LIBOR and quarterly coupons in arrears with 27.5 basis points to 185 basis points over 3 months LIBOR. The Bank has the option to roll over the syndicated loan for a further period of two years from the date of maturity.

Interest on borrowings through total return swaps are payable in quarterly coupons in arrears with 300 basis points over 3 months LIBOR and EIBOR and half yearly coupons in arrears with 300 basis points over 6 months LIBOR.

Interest on borrowings through repurchase agreements are payable in half yearly coupons in arrears with 86 to 128 basis points over 6 months LIBOR.

Notes to the condensed consolidated financial statements
for the period ended June 30, 2010 (continued)

13 Long term borrowings

Instrument	Currency	June 30 2010 (unaudited) AED'000	December 31 2009 (audited) AED'000
Unsecured notes	Turkish Lira (TRY)	**86,373**	90,204
	U.A.E. Dirham(AED)	**500,000**	500,000
	US Dollar (US$)	**73,460**	73,460
		659,833	663,664
Subordinated floating rate notes	US Dollar (US$)	**1,216,865**	1,328,891
Tier II loan	U.A.E. Dirham(AED)	**6,617,456**	6,617,456
Fair value adjustment on long term borrowings being hedged		**12,579**	9,483
		8,506,733	8,619,494

Interest on unsecured notes are payable in arrears and the coupon rates as at June 30, 2010 (unaudited) are as follows:

Currency	Over 5 years
TRY	Fixed rate of 12.75% p.a.
AED	Fixed rate of 6% p.a.
US$	Fixed rate of 5.3875% p.a.

Interest on the subordinated floating rate notes is payable quarterly in arrears at a coupon rate of 60 basis points over 3 months LIBOR. The subordinated floating rate notes were obtained from financial institutions outside the U.A.E. and qualify as Tier II subordinated loan capital for the first 5 year period till 2011 and thereafter it will be amortised at the rate of 20% per annum till 2016 for capital adequacy calculation (Note 25) if these are not redeemed during 2011. This has been approved by the Central Bank of the U.A.E..

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

13 Long term borrowings (continued)

Tier II loan

In 2008, the U.A.E. federal government provided liquidity support in the form of new government deposits to the U.A.E.'s major commercial banks, including ADCB. Late in 2008, the U.A.E. federal government made an offer to convert these deposits into Tier II qualifying loans. In March 2009, the Bank accepted this offer to convert approximately AED 6,617,456 thousand government deposits into Tier II qualifying loans. As per this offer, the Tier II qualifying loan will mature seven years from the date of the issue and will carry interest rate payable on a quarterly basis at a fixed rate of 4 percent per annum commencing March 31, 2009 for the first two years, 4.5 percent per annum for the third year, 5 percent per annum for the fourth year and 5.25 percent per annum for the remaining period. The terms also provide that ADCB will have a call option to repay the loans partially or fully at the end of five years from the date of issue. For regulatory purposes, the loan qualifies as Tier II capital.

14 Other liabilities

	June 30 2010 (unaudited) AED'000	December 31 2009 (audited) AED'000
Interest payable	**952,166**	992,049
Employees' end of service and other benefits	**137,866**	130,973
Accounts payable and other creditors	**794,815**	736,492
Clearing payables	**1,036**	606
Deferred income	**284,065**	263,881
Acceptances	**5,444,097**	4,631,510
Others	**1,241,013**	985,154
	8,855,058	7,740,665

Acceptances arise when the Bank guarantees payments against documents drawn under letters of credit.

15 Share capital

	Authorised	**Issued and fully paid**	
		June 30 2010 (unaudited)	December 31 2009 (audited)
	AED'000	**AED'000**	AED'000
Ordinary shares of AED 1 each	**4,810,000**	**4,810,000**	4,810,000

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

16 Employees' incentive plan shares, net

The Bank has established an Employee Long Term Incentive Plan (the "Plan") to recognise and retain good performing key management employees. Under the Plan, the employees will be granted shares of the Bank when they meet the vesting conditions.

Vesting conditions – Three years' service from the grant date or meeting special conditions during the vesting period (death, disability, retirement or termination)

The movement of plan shares is as follows

	June 30 2010 (unaudited)	December 31 2009 (audited)
Shares outstanding at January 1	**13,173,328**	14,346,260
Shares purchased during the period/year	**27,058,292**	-
Exercised during the period/year	**-**	(1,172,932)
Outstanding at	**40,231,620**	13,173,328
Exercisable at	**-**	-

	3 months ended June 30, 2010 (unaudited)		**6 months ended June 30, 2010 (unaudited)**	
	2010 AED'000	2009 AED'000	**2010 AED'000**	2009 AED'000
Amount of "Plan" costs recognised in the statement of income	**7,129**	3,141	**14,121**	6,420

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

17 Capital notes

In February 2009, as part of the Government's strategy to respond to the global financial crisis, the Department of Finance, Government of Abu Dhabi subscribed for ADCB's Tier I regulatory capital notes with a principal amount of AED 4 billion (the "Notes"), along with such capital notes from other major commercial banks in Abu Dhabi.

The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Issuer subject to certain conditions. The Notes are direct, unsecured, subordinated obligations of the Bank and rank pari passu without any preference among themselves and the rights and claims of the Note holders will be subordinated to the claims of senior creditors. The Notes bear interest at the rate of 6% per annum payable semi-annually until February 2014, and a floating interest rate of 6 month EIBOR plus 2.3% per annum thereafter. However the Bank may at its sole discretion elect not to make a coupon payment. The Note holders do not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default. In addition, there are certain circumstances under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date ("Non-Payment Event").

If the Bank makes a non-payment election or a non-payment event occurs, then the Issuer will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Issuer ranking pari passu with or junior to the Notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

18 Interest income

	3 months ended June 30 (unaudited)		**6 months ended June 30 (unaudited)**	
	2010	2009	**2010**	2009
	AED'000	AED'000	**AED'000**	AED'000
Loans and advances to banks	**36,083**	32,301	**53,758**	92,082
Loans and advances to customers	**1,691,038**	1,660,399	**3,311,598**	3,352,572
Investment securities	**44,496**	38,089	**77,596**	77,358
	1,771,617	1,730,789	**3,442,952**	3,522,012

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

19 Interest expense

	3 months ended June 30 (unaudited)		6 months ended June 30 (unaudited)	
	2010	2009	**2010**	2009
	AED'000	AED'000	**AED'000**	AED'000
Deposits from banks	**33,843**	13,425	**69,572**	50,944
Deposits from customers	**620,272**	589,849	**1,174,064**	1,336,573
Debt securities issued and subordinated liabilities	**118,074**	136,396	**214,949**	317,511
Interest on mandatory convertible securities and long term notes	**73,724**	74,945	**168,531**	165,392
	845,913	814,615	**1,627,116**	1,870,420

20 Net fees and commission income

	3 months ended June 30 (unaudited)		6 months ended June 30 (unaudited)	
	2010	2009	**2010**	2009
	AED'000	AED'000	**AED'000**	AED'000
Fees and commission income				
Retail banking fees	**136,973**	137,423	**258,131**	227,469
Corporate banking fees	**70,812**	132,625	**163,791**	249,951
Brokerage fees	**1,123**	8,922	**2,676**	11,292
Fees from trust and other fiduciary activities	**8,488**	7,931	**15,512**	14,584
Other fees	**11,578**	11,844	**19,748**	17,612
Total fees and commission income	**228,974**	298,745	**459,858**	520,908
Fees and commission expenses	**(23,390)**	(6,617)	**(44,587)**	(24,811)
Net fees and commission income	**205,584**	292,128	**415,271**	496,097

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

21 Impairment allowances

	3 months ended June 30 (unaudited)		6 months ended June 30 (unaudited)	
	2010 AED'000	2009 AED'000	**2010 AED'000**	2009 AED'000
Impairment allowance on doubtful loans and advances, net of recoveries (Note 6)	**1,097,566**	401,000	**1,686,754**	536,401
Impairment allowance on investment securities (Note 8)	**183,307**	158,252	**218,299**	269,505
Impairment allowance on credit default swaps (Note 23)	**22,038**	53,447	**79,182**	84,185
	1,302,911	612,699	**1,984,235**	890,091

Notes to the condensed consolidated financial statements
for the period ended June 30, 2010 (continued)

22 Earnings per share (unaudited)

Basic

Basic earnings per share is calculated by dividing the net profit for the period attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the period.

Ordinary shares that will be issued upon the conversion of mandatory convertible securities (MCS) are included in the calculation of basic earnings per share.

	3 months ended June 30 (unaudited)		6 months ended June 30 (unaudited)	
	2010	2009	**2010**	2009
Net (loss) / profit for the period attributable to the equity holders of the Bank (AED'000)	**(527,325)**	294,861	**(308,768)**	648,566
Add: Interest on MCS for the period (AED'000)	**23,382**	23,349	**52,107**	89,796
Less: Coupons paid on capital notes (AED'000)	**-**	-	**(122,667)**	-
Net adjusted (loss)/profit for the period attributable to the equity holders of the Bank (AED'000) (a)	**(503,943)**	318,210	**(379,328)**	738,362
Weighted average number of shares in issue throughout the period (000's)	**4,810,000**	4,810,000	**4,810,000**	4,810,000
Add: Weighted average number of shares resulting from conversion of MCS (000's)	**785,597**	785,597	**785,597**	785,597
Less: Weighted average number of shares resulting from Employees' incentive plan shares (000's)	**(37,167)**	(13,580)	**(30,893)**	(13,961)
Weighted average number of potential equity shares in issue during the period (000's) (b)	**5,558,430**	5,582,017	**5,564,704**	5,581,636
Basic (loss)/earnings per share (AED) (a)/(b)	**(0.09)**	0.06	**(0.07)**	0.13

23 Commitments and contingent liabilities

The Bank had the following commitments and contingent liabilities at:

	June 30 2010 (unaudited) AED'000	December 31 2009 (audited) AED'000
Commitments on behalf of customers		
Letters of credit	**4,403,462**	4,107,386
Guarantees	**15,068,140**	16,077,519
Commitments to extend credit – Revocable	**3,856,366**	4,791,152
Commitments to extend credit – Irrevocable	**12,163,615**	18,820,730
Credit default swaps	**1,709,571**	2,007,017
	37,201,154	45,803,804
Others		
Commitments for future capital expenditure	**443,320**	190,920
Commitments to invest in investment securities	**247,282**	245,409
	37,891,756	46,240,133

The Bank's total exposure in credit default swaps net of provisions amounted to AED 1,709,571 thousand. During the period, an amount of AED 79,182 thousand (Note 21) has been provided (June 30, 2009 – AED 84,185 thousand) towards expected calls against impaired credit default swaps based on the independent advisors' reports and recommendations.

Commitment for acquisition of business

On June 16, 2010, the Bank entered into a business sale agreement to acquire the retail banking business of The Royal Bank of Scotland ("RBS") in the U.A.E. for a total cash consideration equal to the net asset value of the U.A.E. RBS retail banking business ("the business") at the acquisition date plus US$ 46 million. Since the actual acquisition is expected to be in October 2010, the total consideration to acquire the business will be determined on the Net Asset Value as on the acquisition date. This acquisition is subject to U.A.E. Central Bank approval.

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

24 Business segments

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segment and to assess its performance.

Information reported to the Management Executive Committee of the Bank as the Chief Operating Decision Maker of the Bank, for the purpose of resource allocation and assessment of performance is more specifically focused on the business segments of the Bank. The business segments as reported under IFRS 8 are wholesale banking, consumer banking and investment and treasury banking. Assets, liabilities and performance information that are not allocated to segments are presented in the following table as corporate support.

The following is an analysis of the Bank's revenue and results by operating segment:

	Consumer Banking AED' 000	Wholesale Banking AED' 000	Investments and Treasury AED' 000	Corporate Support AED' 000	Total AED' 000
For the 6 months period ended June 30, 2010 – unaudited					
Net interest income after distribution to depositors	**800,275**	**529,524**	**396,179**	**45,640**	**1,771,618**
Other operating income, excluding share of (loss)/profit of associates	**258,137**	**215,025**	**18,649**	**22,637**	**514,448**
Share of (loss)/profit of associates	**(14,698)**	**208,834**	**-**	**-**	**194,136**
Provision for impairment of loans & advances	**(396,168)**	**(1,290,586)**	**-**	**-**	**(1,686,754)**
Impairment of funded and unfunded investments	**-**	**(29,232)**	**(268,249)**	**-**	**(297,481)**
Depreciation and amortisation	**(34,316)**	**(6,516)**	**(4,943)**	**(1,204)**	**(46,979)**
Other operating expenses	**(445,717)**	**(206,820)**	**(67,017)**	**(33,732)**	**(753,286)**
Net (loss)/profit before taxation	**167,513**	**(579,771)**	**74,619**	**33,341**	**(304,298)**
Taxation	**-**	**(1,645)**	**-**	**-**	**(1,645)**
Net (loss)/profit after taxation	**167,513**	**(581,416)**	**74,619**	**33,341**	**(305,943)**
Capital expenditure	**-**	**-**	**-**	**49,875**	**49,875**

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

24 Business segments (continued)

	Consumer Banking AED' 000	Wholesale Banking AED' 000	Investments and Treasury AED' 000	Corporate Support AED' 000	Total AED' 000
For the 6 months period ended June 30, 2009 – unaudited					
Net interest income after distribution to depositors	618,548	418,536	521,864	35,609	1,594,557
Other operating income, excluding share of profit of associate	242,899	248,228	81,105	50,075	622,307
Share of profit of associate	-	108,406	-	-	108,406
Provision for impairment of loans & advances	(294,451)	(241,950)	-	-	(536,401)
Impairment of funded and unfunded investments	-	-	(353,690)	-	(353,690)
Depreciation and amortisation	(27,477)	(5,421)	(3,489)	(848)	(37,235)
Other operating expenses	(419,363)	(211,627)	(75,324)	(32,496)	(738,810)
Net profit before taxation	120,156	316,172	170,466	52,340	659,134
Taxation	-	(2,417)	-	-	(2,417)
Net profit after taxation	120,156	313,755	170,466	52,340	656,717
Capital expenditure	-	-	-	175,319	175,319

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

24 Business segments (continued)

For the 3 months period ended June 30, 2010 – unaudited	Consumer Banking AED' 000	Wholesale Banking AED' 000	Investments and Treasury AED' 000	Corporate Support AED' 000	Total AED' 000
Net interest income after distribution to depositors	425,664	251,912	199,249	23,100	899,925
Other operating income, excluding share of (loss)/profit of associates	124,900	98,034	6,563	(5,141)	224,356
Share of (loss)/profit of associates	(23,681)	109,787	-	-	86,106
Provision for impairment of loans & advances	(202,869)	(894,697)	-	-	(1,097,566)
Impairment of funded and unfunded investments	-	(16,235)	(189,110)	-	(205,345)
Depreciation and amortisation	(16,934)	(3,151)	(2,428)	(565)	(23,078)
Other operating expenses	(241,673)	(116,676)	(41,479)	(15,955)	(415,783)
Net (loss)/profit before taxation	65,407	(571,026)	(27,205)	1,439	(531,385)
Taxation	-	433	-	-	433
Net (loss)/profit after taxation	65,407	(570,593)	(27,205)	1,439	(530,952)
Capital expenditure	-	-	-	25,373	25,373

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

24 Business segments (continued)

	Consumer Banking AED' 000	Wholesale Banking AED' 000	Investments and Treasury AED' 000	Corporate Support AED' 000	Total AED' 000
For the 3 months period ended June 30, 2009 – unaudited					
Net interest income after distribution to depositors	320,005	244,038	304,378	17,747	886,168
Other operating income, excluding share of profit of associate	152,133	116,103	53,460	23,573	345,269
Share of profit of associate	-	86,146	-	-	86,146
Provision for impairment of loans & advances	(190,022)	(210,978)	-	-	(401,000)
Impairment of funded and unfunded investments	-	-	(211,699)	-	(211,699)
Depreciation and amortisation	(13,871)	(3,188)	(1,752)	(466)	(19,277)
Other operating expenses	(222,660)	(111,770)	(30,632)	(16,452)	(381,514)
Net profit before taxation	45,585	120,351	113,755	24,402	304,093
Taxation	-	(1,068)	-	-	(1,068)
Net profit after taxation	45,585	119,283	113,755	24,402	303,025
Capital expenditure	-	-	-	38,720	38,720

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

24 Business segments (continued)

	Consumer Banking AED' 000	Wholesale Banking AED' 000	Investments and Treasury AED' 000	Corporate Support AED' 000	Total AED' 000
As of June 30, 2010 – unaudited					
Segment assets	**63,359,959**	**67,796,080**	**33,995,532**	**1,447,456**	**166,599,027**
Segment liabilities	**23,708,754**	**46,764,825**	**77,245,718**	**140,215**	**147,859,512**
As at December 31, 2009 - audited					
Segment assets	59,106,435	68,474,440	31,180,835	1,447,068	160,208,778
Segment liabilities	23,741,334	34,413,534	82,679,810	283,981	141,118,659

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

24 Business segments (continued)

Geographical information

The Bank operates in two principal geographic areas that is Domestic and International. The United Arab Emirates is designated as Domestic area which represents the operations of the Bank that originates from the U.A.E. Branches and subsidiaries; and International area represents the operations of the Bank that originates from its branches in India and through its subsidiaries and associate outside U.A.E. The Bank's operations and information about its segment assets (non-current assets excluding investments in associates and other financial instruments) by geographical location are detailed as follows:

	Domestic (unaudited)		International (unaudited)	
	6 months ended		6 months ended	
	June 30 2010 AED'000	June 30 2009 AED'000	**June 30 2010 AED'000**	June 30 2009 AED'000
Income				
Net interest income after distribution to depositors	**1,762,393**	1,585,713	**9,225**	8,844
Other operating income	**495,441**	620,132	**213,143**	110,581

	Domestic (unaudited)		International (unaudited)	
	3 months ended		3 months ended	
	June 30 2010 AED'000	June 30 2009 AED'000	**June 30 2010 AED'000**	June 30 2009 AED'000
Income				
Net interest income after distribution to depositors	**898,034**	881,176	**1,891**	4,992
Other operating income	**199,037**	351,721	**111,425**	79,694

	Domestic		International	
	June 30 2010 (unaudited) AED'000	December 31 2009 (audited) AED'000	**June 30 2010 (unaudited) AED'000**	December 31 2009 (audited) AED'000
Investment properties	**490,328**	549,492	**-**	-
Property and equipment, net	**813,894**	786,736	**4,887**	4,985

Notes to the condensed consolidated financial statements for the period ended June 30, 2010 (continued)

25 Capital adequacy

The ratio calculated in accordance with Basel II is as follows:

	Basel II	
	June 30 2010 (unaudited)	December 31 2009 (audited)
	AED'000	AED'000
Tier 1 capital		
Share capital	**4,810,000**	4,810,000
Statutory and legal reserves	**2,627,979**	2,627,979
General and contingency reserves	**2,150,000**	2,150,000
Foreign currency translation reserve	**(103,628)**	(353,736)
Retained earnings	**700,500**	1,360,623
Non-controlling interest in equity of subsidiaries	**7,627**	69,087
Employees' incentive plan shares	**(46,402)**	(13,438)
Mandatory convertible securities	**4,708,857**	4,742,932
Capital notes (Note 17)	**4,000,000**	4,000,000
Less: Investments in associates (50%)	**(2,482,188)**	(2,291,330)
Less: Securitization exposures (due to rating migration)	**(602,378)**	-
	15,770,367	17,102,117
Tier 2 capital		
Collective impairment allowance on loans and advances (Note 6)	**1,357,808**	1,504,854
Cumulative changes in fair value	**(40,444)**	(194,279)
Long term borrowings (Note 13)	**6,617,456**	6,617,456
Subordinated floating rate notes (Note 13)	**1,216,865**	1,328,891
Less: Investments in associates (50%)	**(2,482,187)**	(2,291,329)
Less: Securitization exposures (due to rating migration)	**(602,379)**	-
	6,067,119	6,965,593
Total regulatory capital	**21,837,486**	24,067,710
Risk-weighted assets:		
Credit risk	**128,889,653**	126,294,138
Market risk	**3,365,399**	6,523,298
Operational risk	**5,405,406**	5,657,608
Total risk-weighted assets	**137,660,458**	138,475,044
Capital adequacy ratio	**15.86%**	17.38%

The capital adequacy ratio was above the minimum requirement of 12% for June 30, 2010 (December 31, 2009 – 11%) stipulated by the U.A.E. Central Bank.

26 Approval of financial statements

The condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on July 30, 2010.

ABU DHABI COMMERCIAL BANK P.J.S.C.

Report and consolidated financial statements for the year ended December 31, 2009

ABU DHABI COMMERCIAL BANK P.J.S.C.

Report and consolidated financial statements for the year ended December 31, 2009

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Abu Dhabi Commercial Bank P.J.S.C.
Abu Dhabi, U.A.E.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Commercial Bank P.J.S.C. and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated statement of financial position as at December 31, 2009, and the consolidated income statement, other comprehensive income, statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 3 to 104.

Management's responsibility for the consolidated financial statements

Management of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's responsibility (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects the financial position of the Bank as of December 31, 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Bank, and the information included in the Board of Directors' report is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions of the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended) or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance.

Saba Y. Sindaha
Registration Number 410
January 26, 2010

Deloitte & Touche
Abu Dhabi - U.A.E.
P.O.Box: 990

Consolidated statement of financial position as at December 31, 2009

	Notes	2009 AED'000	2008 AED'000	2009 US$'000
ASSETS				
Cash and balances with Central Banks	6	4,139,015	3,911,009	1,126,876
Deposits and balances due from banks	7	18,348,988	17,528,422	4,995,641
Trading securities	8	86,561	-	23,567
Loans and advances, net	9	116,610,292	109,081,089	31,747,969
Derivative financial instruments	10	4,953,019	6,617,613	1,348,494
Investment securities	11	4,372,744	3,422,794	1,190,510
Investments in associates	12	4,582,659	4,427,529	1,247,661
Investment properties	13	549,492	632,492	149,603
Other assets	14	5,774,287	2,233,680	1,572,090
Property and equipment, net	15	791,721	575,841	215,551
Total assets		160,208,778	148,430,469	43,617,962
LIABILITIES				
Due to banks	16	4,738,201	6,905,263	1,290,008
Customers' deposits	17	86,299,957	84,360,821	23,495,768
Mandatory convertible securities – liability component	18	109,049	168,435	29,689
Short and medium term borrowings	19	28,921,804	28,427,189	7,874,164
Derivative financial instruments	10	4,689,489	6,778,893	1,276,746
Long term borrowings	20	8,619,494	2,139,359	2,346,718
Other liabilities	21	7,740,665	3,735,357	2,107,450
Total liabilities		141,118,659	132,515,317	38,420,543
EQUITY				
Share capital	22	4,810,000	4,810,000	1,309,556
Statutory and legal reserves	23	2,627,979	2,627,979	715,486
General and contingency reserves	23	2,150,000	2,150,000	585,353
Employees' incentive plan shares, net	24	(13,438)	(25,708)	(3,659)
Foreign currency translation reserve		(353,736)	(392,022)	(96,307)
Proposed dividends	25	-	481,000	-
Cash flow hedge reserve		(107,360)	-	(29,229)
Cumulative changes in fair values		(194,279)	(625,014)	(52,894)
Retained earnings		1,467,983	2,147,431	399,669
Capital notes	26	4,000,000	-	1,089,028
Mandatory convertible securities – equity component	18	4,633,883	4,633,883	1,261,607
Equity attributable to equity holders of the parent		19,021,032	15,807,549	5,178,610
Non-controlling interest		69,087	107,603	18,809
Total equity		19,090,119	15,915,152	5,197,419
Total liabilities and equity		160,208,778	148,430,469	43,617,962
Commitments and contingent liabilities	37	46,240,133	50,295,199	12,589,200

Eissa Al Suwaidi
Chairman

Ala'a Eraiqat
Chief Executive Officer

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated income statement
for the year ended December 31, 2009

	Notes	2009 AED'000	2008 AED'000	2009 US$'000
Interest income	27	**6,897,823**	5,945,910	**1,877,980**
Interest expense	28	**(3,516,903)**	(3,437,434)	**(957,501)**
Net interest income		**3,380,920**	2,508,476	**920,479**
Distribution to depositors	17	**(104,777)**	(27,865)	**(28,526)**
Net interest income net of distribution to distributors		**3,276,143**	2,480,611	**891,953**
Net fees and commission income	29	**985,624**	982,094	**268,343**
Net gain on dealing in derivatives		**43,468**	131,015	**11,834**
Net gains from dealing in foreign currencies	30	**106,636**	278,558	**29,032**
(Decrease)/increase in fair value of investment properties	13	**(83,000)**	178,148	**(22,597)**
Share of profit of associates	12	**223,162**	171,557	**60,757**
Net gain from trading and investment securities	31	**71,578**	78,565	**19,488**
Other operating income		**152,564**	78,675	**41,537**
Dividend income		**6,631**	11,076	**1,805**
Operating income		**4,782,806**	4,390,299	**1,302,152**
Staff expenses		**(856,962)**	(848,110)	**(233,314)**
Depreciation	15	**(89,083)**	(57,330)	**(24,254)**
Other operating expenses		**(593,355)**	(619,721)	**(161,545)**
Impairment allowances	32	**(3,752,974)**	(1,498,147)	**(1,021,773)**
Operating expenses		**(5,292,374)**	(3,023,308)	**(1,440,886)**
(Loss)/profit from operations before taxation		**(509,568)**	1,366,991	**(138,734)**
Overseas income tax expense	34	**(3,231)**	(8,518)	**(880)**
Net (loss)/profit for the year		**(512,799)**	1,358,473	**(139,614)**
Attributed to:				
Equity holders of the parent		**(559,448)**	1,236,592	**(152,314)**
Non-controlling interest		**46,649**	121,881	**12,700**
Net (loss)/profit for the year		**(512,799)**	1,358,473	**(139,614)**
Basic (loss)/earnings per share (AED/US$)	33	**(0.09)**	0.26	**(0.03)**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income for the year ended December 31, 2009

	2009 AED'000	2008 AED'000	2009 US$'000
Net (loss)/profit for the year	**(512,799)**	1,358,473	**(139,614)**
Exchange difference arising on translation of foreign operations	**47,146**	(421,285)	**12,835**
Net loss on hedge of net investment in foreign operation	**(107,360)**	-	**(29,229)**
Fair value changes reversed on sale of available for sale investments	**182,953**	11,608	**49,810**
Fair value changes on available for sale investments	**258,762**	(544,713)	**70,450**
Share in comprehensive income statement items of associate (RHB Capital Berhad)	**(19,840)**	24,410	**(5,401)**
Board of Directors' remuneration	**-**	(4,750)	**-**
Net comprehensive (loss)/profit for the year	**(151,138)**	423,743	**(41,149)**
Attributed to:			
Equity holders of the parent	**(197,787)**	301,862	**(53,849)**
Non-controlling interest	**46,649**	121,881	**12,700**
Net comprehensive (loss)/profit for the year	**(151,138)**	423,743	**(41,149)**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended December 31, 2009

	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Employees' incentive plan shares, net AED'000	Foreign currency translation reserve AED'000	Proposed dividends AED'000	Cash flow hedge reserve AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Capital notes AED'000	Mandatory convertible securities - equity component AED'000	Attributable to equity holders of the parent AED'000	Non-controlling interest AED'000	Total equity AED'000
Balance at January 1, 2009	**4,810,000**	**1,336,383**	**1,291,596**	**2,000,000**	**150,000**	**(25,708)**	**(392,022)**	**481,000**	**-**	**(625,014)**	**2,147,431**	**-**	**4,633,883**	**15,807,549**	**107,603**	**15,915,152**
Net (loss)/profit for the year	-	-	-	-	-	-	-	-	-	-	(559,448)	-	-	(559,448)	46,649	(512,799)
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	47,146	-	-	-	-	-	-	47,146	-	47,146
Net loss on hedge of net investment in foreign operation	-	-	-	-	-	-	-	-	(107,360)	-	-	-	-	(107,360)	-	(107,360)
Fair value changes on available for sale investments	-	-	-	-	-	-	-	-	-	258,762	-	-	-	258,762	-	258,762
Fair value changes reversed on sale of available for sale investments	-	-	-	-	-	-	-	-	-	182,953	-	-	-	182,953	-	182,953
Share in comprehensive income statement items of associate (RHB Capital Berhard)	-	-	-	-	-	-	(8,860)	-	-	(10,980)	-	-	-	(19,840)	-	(19,840)
Total comprehensive profit/(loss) for the year	-	-	-	-	-	-	38,286	-	(107,360)	430,735	(559,448)	-	-	(197,787)	46,649	(151,138)
Dividends paid	-	-	-	-	-	-	-	(481,000)	-	-	-	-	-	(481,000)	(88,480)	(569,480)
Issue of capital notes (Note 26)	-	-	-	-	-	-	-	-	-	-	-	4,000,000	-	4,000,000	-	4,000,000
Capital notes coupon paid	-	-	-	-	-	-	-	-	-	-	(120,000)	-	-	(120,000)	-	(120,000)
Shares – vested portion (Note 24)	-	-	-	-	-	12,270	-	-	-	-	-	-	-	12,270	-	12,270
Acquisition of subsidiary (Note 11)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,315	3,315
Balance at December 31, 2009	**4,810,000**	**1,336,383**	**1,291,596**	**2,000,000**	**150,000**	**(13,438)**	**(353,736)**	**-**	**(107,360)**	**(194,279)**	**1,467,983**	**4,000,000**	**4,633,883**	**19,021,032**	**69,087**	**19,090,119**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended December 31, 2009 (continued)

	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Employees' incentive plan shares, net AED'000	Foreign currency translation reserve AED'000	Proposed dividends AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Mandatory convertible securities - equity component AED'000	Attributable to equity holders of the parent AED'000	Non-controlling interest AED'000	Total equity AED'000
Balance at January 1, 2008	4,000,000	1,212,724	1,167,937	2,000,000	150,000	-	8,253	1,210,000	(94,854)	1,643,452	-	11,297,512	114,231	11,411,743
Net profit for the year	-	-	-	-	-	-	-	-	-	1,236,592	-	1,236,592	121,881	1,358,473
Exchange difference arising on translation of foreign operations	-	-	-	-	-	-	(421,285)	-	-	-	-	(421,285)	-	(421,285)
Fair value changes on available for sale investments	-	-	-	-	-	-	-	-	(544,713)	-	-	(544,713)	-	(544,713)
Fair value changes reversed on sale of available for sale investments	-	-	-	-	-	-	-	-	11,608	-	-	11,608	-	11,608
Share in comprehensive income statement items of associate (RHB Capital Berhard)	-	-	-	-	-	-	21,010	-	3,400	-	-	24,410	-	24,410
Board of Directors' remuneration	-	-	-	-	-	-	-	-	-	(4,750)	-	(4,750)	-	(4,750)
Realised loss on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)	-	-	-	-	-	-	-	-	(455)	455	-	-	-	-
Total comprehensive profit/(loss) for the year	-	-	-	-	-	-	(400,275)	-	(530,160)	1,232,297	-	301,862	121,881	423,743
Issue of mandatory convertible securities	-	-	-	-	-	-	-	-	-	-	4,633,883	4,633,883	-	4,633,883
Dividends paid	-	-	-	-	-	-	-	(400,000)	-	-	-	(400,000)	(128,509)	(528,509)
Bonus issue of shares	810,000	-	-	-	-	-	-	(810,000)	-	-	-	-	-	-
Shares granted (Note 24)	-	-	-	-	-	(38,131)	-	-	-	-	-	(38,131)	-	(38,131)
Shares – vested portion (Note 24)	-	-	-	-	-	12,423	-	-	-	-	-	12,423	-	12,423
Transfer to statutory reserve	-	123,659	-	-	-	-	-	-	-	(123,659)	-	-	-	-
Transfer to legal reserve	-	-	123,659	-	-	-	-	-	-	(123,659)	-	-	-	-
Proposed dividends	-	-	-	-	-	-	-	481,000	-	(481,000)	-	-	-	-
Balance at December 31, 2008	4,810,000	1,336,383	1,291,596	2,000,000	150,000	(25,708)	(392,022)	481,000	(625,014)	2,147,431	4,633,883	15,807,549	107,603	15,915,152

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flow
for the year ended December 31, 2009

	2009 AED'000	2008 AED'000	2009 US$ 000
OPERATING ACTIVITIES			
Net (loss)/profit before taxation and non-controlling interest	**(509,568)**	1,366,991	**(138,734)**
Adjustments for:			
Depreciation on property and equipment	**89,083**	57,330	**24,253**
Dividend income	**(6,631)**	(11,076)	**(1,805)**
Loss/(gain) on revaluation of investment properties	**83,000**	(178,148)	**22,597**
Allowance for doubtful loans and advances, net	**3,077,563**	934,722	**837,888**
Recovery of allowance for doubtful loans and advances	**(109,248)**	(176,282)	**(29,743)**
Impairment allowance on credit default swaps	**244,550**	443,637	**66,580**
Impairment allowance on investment securities	**392,202**	296,070	**106,780**
Impairment allowance on non-financial asset	**90,734**	-	**24,703**
Impairment allowance on Subsidiary goodwill write off	**57,173**	-	**15,566**
Net gain from trading and investment securities	**(71,578)**	(78,565)	**(19,488)**
Imputed interest on convertible	**(59,386)**	23,953	**(16,168)**
Share of profit of associates	**(223,162)**	(171,557)	**(60,757)**
Employees' incentive plan benefit expense	**12,270**	12,423	**3,341**
Operating profit before changes in operating assets and liabilities	**3,067,002**	2,519,498	**835,013**
(Increase)/decrease in due from banks	**(431,367)**	251,905	**(117,443)**
Increase in net trading derivative financial instruments	**(72,656)**	(813)	**(19,781)**
Increase in loans and advances	**(10,414,205)**	(34,338,965)	**(2,835,340)**
Decrease/(increase) in other assets	**196,031**	(476,269)	**53,371**
Increase/(decrease) in due to banks	**1,445,543**	(1,404,277)	**393,559**
Increase in customers' deposits	**8,559,808**	27,200,001	**2,330,468**
(Decrease)/increase in other liabilities	**(333,983)**	1,164,030	**(90,929)**
Cash from/(used in) operations	**2,016,173**	(5,084,890)	**548,918**
Board of Directors' remuneration paid	**(4,750)**	(4,750)	**(1,293)**
Overseas taxation (paid)/refund	**(3,231)**	18,868	**(880)**
Net cash from/(used in) operations	**2,008,192**	(5,070,772)	**546,745**
INVESTING ACTIVITIES			
Investments in associates	**(73,460)**	(4,635,578)	**(20,000)**
Dividend received from associates	**65,103**	-	**17,725**
Investment in subsidiary	**(36,730)**	-	**(10,000)**
Dividend income	**6,631**	11,076	**1,805**
Proceeds from sale of investments	**1,418,064**	1,301,316	**386,078**
Purchase of investments	**(2,471,876)**	(2,384,099)	**(672,986)**
Purchase of property and equipment, net	**(311,096)**	(154,798)	**(84,698)**
Net cash used in investing activities	**(1,403,364)**	(5,862,083)	**(382,076)**
FINANCING ACTIVITIES			
Dividends paid to equity shareholders	**(481,000)**	(400,000)	**(130,956)**
Dividends paid to minority shareholders	**(88,480)**	(128,509)	**(24,089)**
Net proceeds from short and medium term borrowings	**314,462**	4,013,350	**85,614**
Interest paid on capital notes	**(120,000)**	-	**(32,671)**
Proceeds from issue of mandatory convertible securities	**-**	4,778,365	**-**
Proceeds from issue of capital notes	**4,000,000**	-	**1,089,028**
Employees' Incentive plan shares related payment	**-**	(38,131)	**-**
Net cash from financing activities	**3,624,982**	8,225,075	**986,926**
Increase/(decrease) in cash and cash equivalents	**4,229,810**	(2,707,780)	**1,151,595**
Cash and cash equivalents at the beginning of the year	**15,144,109**	17,851,889	**4,123,090**
Cash and cash equivalents at the end of the year (Note 35)	**19,373,919**	15,144,109	**5,274,685**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements
for the year ended December 31, 2009

1 Activities

Abu Dhabi Commercial Bank P.J.S.C. ("ADCB") is a public joint stock company with limited liability incorporated in the Emirate of Abu Dhabi, United Arab Emirates (U.A.E.). ADCB carries on retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management activities through its network of forty seven branches in the U.A.E., two branches in India, its subsidiaries, joint ventures and associates.

The registered head office of ADCB is at Abu Dhabi Commercial Bank Head Office Building, Salam Street, plot C- 33, Sector E-11, P. O. Box 939, Abu Dhabi, U.A.E.

ADCB is registered as a public joint stock company in accordance with the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended).

2 Adoption of new and revised standards

2.1 Standards affecting presentation and disclosure

The following new and revised Standards have been adopted in the current period in these financial statements. Details of other Standards and Interpretations adopted but that have had no effect on the financial statements are set out in section 2.2.

• IAS 1 (as revised in 2007) *Presentation of Financial Statements*	IAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.
• *Improving disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)*	The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional reliefs offered in these amendments.
• IFRS 8 *Operating Segments*	IFRS 8 is a disclosure standard that has resulted in re-designation of the Group's reportable segments (see Note 38).

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

2 Adoption of new and revised standards (continued)

2.2 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption had no significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

• Amendments to IFRS 2 *Share-based Payment - Vesting Conditions and Cancellations*	The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations.
• IAS 23 (as revised in 2007) *Borrowing Costs*	The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred.
• Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*	The revisions to IAS 32 amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.
• IFRIC 13 *Customer Loyalty Programmes*	The Interpretation provides guidance on how entities should account for customer loyalty programmes by allocating revenue on sale to possible future award attached to the sale.
• IFRIC 15 *Agreements for the Construction of Real Estate*	The Interpretation addresses how entities should determine whether an agreement for the construction of real estate is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue* and when revenue from the construction of real estate should be recognised.
• IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.
• IFRIC 18 *Transfers of Assets from Customers* (adopted in advance of effective date of transfers of assets from customers received on or after 1 July 2009)	The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit recognised as revenue in accordance with IAS 18 Revenue.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

2 Adoption of new and revised standards (continued)

2.2 Standards and Interpretations adopted with no effect on the financial statements (continued)

• Improvements to IFRSs (2008)	Amendments to IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 resulting from the May and October 2008 *Annual Improvements to IFRSs* majority of which are effective for annual periods beginning on or after 1 January 2009.

2.3 Standards and Interpretations in issue not yet effective

At the date of authorisation of these financial statements, the following new and revised Standards and Interpretations were in issue but not yet effective:

New Standards and amendments to Standards:	Effective for annual periods beginning on or after
• IFRS 1 (revised) *First time Adoption of IFRS* and IAS 27 (revised) *Consolidated and Separate Financial Statements* – Amendment relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	1 July 2009
• IFRS 3 (revised) *Business Combinations* – Comprehensive revision on applying the acquisition method and consequential amendments to IAS 27 (revised) *Consolidated and Separate Financial Statements*, IAS 28 (revised) *Investments in Associates* and IAS 31 (revised) *Interests in Joint Ventures*	1 July 2009
• IAS 39 (revised) *Financial Instruments: Recognition and Measurement* – Amendments relating to Eligible Hedged Items(such as hedging Inflation risk and Hedging with options)	1 July 2009
• IFRS 1 (revised) *First time Adoption of IFRS* – Amendment on additional exemptions for First-time Adopters	1 January 2010
• IFRS 2 (revised) *Share-based payment* – Amendment relating to Group cash-settled Share-based payments	1 January 2010
• IAS 32 (revised) *Financial Instruments: Presentation* – Amendments relating to classification of Rights Issue	1 February 2010
• IAS 24 *Related Party Disclosures* – Amendment on disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a Government	1 January 2011
• IFRS 9 Financial Instruments: *Classification and Measurement* (intended as complete replacement for IAS 39 and IFRS 7)	1 January 2013
• Amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38 and IAS 39 resulting from April 2009 *Annual Improvements to IFRSs*.	Majority effective for annual periods beginning on or after 1 January 2010

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

2 Adoption of new and revised standards (continued)

2.3 Standards and Interpretations in issue not yet effective (continued)

New Interpretations and amendments to Interpretations:	Effective for annual periods beginning on or after
• IFRIC 17: *Distributions of Non-cash Assets to Owners*	1 July 2009
• IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*	1 July 2010
• Amendment to IFRIC 14: *IAS 19: The limit on a defined Benefit Asset, Minimum Funding Requirement and their interaction*	1 January 2011
• Amendment to IFRIC 16: *Hedges of a Net Investment in a Foreign Operation*	1 July 2009
• Amendment to IFRIC 9 (revised): *Reassessment of Embedded Derivatives* relating to assessment of embedded derivatives in case of reclassification of a financial asset out of the 'FVTPL' category	1 July 2009

The directors anticipate that these amendments will be adopted in the Bank's financial statements for the period beginning January 1, 2010 or when applicable. The directors have not yet had an opportunity to consider the potential impact of the adoption of these new standards and amendments.

3 Basis of preparation

3.1 Statement of compliance

The consolidated financial statements have been prepared on going concern basis and in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and applicable requirements of the Laws of the U.A.E..

IFRSs comprise accounting standards issued by IASB and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and its predecessor body.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated October 12, 2008, the Bank's exposure in Cash and balances with Central banks, Due from banks and Investment securities outside the U.A.E. have been presented under the respective notes.

3 Basis of preparation (continued)

3.2 Measurement

The consolidated financial statements have been prepared on the historical cost basis except as specified below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

- derivative financial instruments are measured at fair value
- financial instruments at fair value through profit or loss are measured at fair value
- available-for-sale financial assets are measured at fair value
- investment properties are measured at fair value
- recognised financial assets and financial liabilities designated as hedged items in qualifying hedge relationships are adjusted for changes in fair value attributable to the risk being hedged.

3.3 Presentation of information

The consolidated financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Bank's functional and presentation currency. Except as indicated, financial information presented in AED has been rounded to the nearest thousand.

The US Dollar (US$) amounts are presented for the convenience of the reader.

3.4 Use of estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of the accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in Note 5.

3 Basis of preparation (continued)

3.5 Consolidation

The consolidated financial statements incorporate the financial statements of Abu Dhabi Commercial Bank P.J.S.C. and its subsidiaries (collectively referred to as the "Bank") as set out in Note 48. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities, generally conferred by holding a majority of voting rights. Subsidiaries are consolidated from the date that the Bank gains control until the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the Bank. The cost of acquisition is measured at the fair value of the consideration given at the date of exchange, together with costs directly attributable to that acquisition. The acquired identifiable assets, liabilities and contingent liabilities are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair value of the Bank's share of the identifiable assets, liabilities and contingent liabilities acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Bank's share of the identifiable assets, liabilities and contingent liabilities of the business acquired, the difference is recognised immediately in the consolidated income statement.

In the context of Special Purpose Entities (SPEs), the following circumstances may indicate a relationship in which, in substance, the Bank controls and consequently consolidates an SPE:

- the activities of the SPE are being conducted on behalf of the entity according to its specific business needs so that the Bank obtains benefits from the SPE's operation;
- the Bank has the decision-making powers to obtain the majority of the benefits of the activities of the SPE or, by setting up an 'autopilot' mechanism, the entity has delegated these decision-making powers;
- the Bank has the right to obtain the majority of the benefits of the SPE and therefore may be exposed to risks incident to the activities of the SPE; or
- the Bank retains the majority of the residual or ownership risks related to the SPE or its assets in order to obtain benefits from its activities.

The assessment of whether the Bank has control over an SPE is carried out at inception and normally no further reassessment of control is carried out in the absence of changes in the structure or terms of the SPE, or additional transactions between the Bank and the SPE except whenever there is a change in the substance of the relationship between the Bank and an SPE.

The Bank manages and administers assets held in unit trusts on behalf of investors. The financial statements of these entities are not included in the consolidated financial statements except when the Bank controls the entity. Information about the Funds managed by the Bank is set out in Note 47.

The consolidated financial statements also include the attributable share of the results and reserves of joint ventures and associates.

The financial statements of the entities included in consolidation are prepared for the same reporting period as that of the Bank, using consistent accounting policies. All significant inter-company balances, income and expense (except for foreign currency transaction gains or losses) items are eliminated on consolidation. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

3 Basis of preparation (continued)

3.5 Consolidation (continued)

Non-controlling interest in subsidiaries are identified separately from the Bank's equity therein. The interest of non-controlling shareholders is measured as the non-controlling interest's proportionate share of the fair value of the acquiree's identifiable net assets. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Non-controlling interest represents the portion of profit or loss for the year and portion of net assets of consolidated subsidiaries not owned directly or indirectly by the Bank and are identified separately under the headings 'Non-controlling interest' in the consolidated financial statements, except for losses attributable to the non-controlling shareholders in Abu Dhabi Risk and Treasury Solutions L.L.C., as stated in Note 48.

4 Significant accounting policies

4.1 Due from banks

Due from banks are stated at cost less any amounts written off and allowance for impairment.

4.2 Loans and advances, net

Loans and advances to banks and customers include loans and advances originated by the Bank which are not classified either as available-for-sale or as held for trading or designated at fair value through profit and loss. They are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term. They are recognised when cash is advanced to borrowers and derecognised when either borrowers repay their obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest method, less impairment losses.

Loan impairment

Losses for impaired loans and advances are recognised promptly when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Impairment allowances are calculated on individual loans and on group of loans assessed collectively. Impairment losses are recorded as charges to the income statement. The carrying amount of impaired loans on the statement of financial position is reduced through the use of impairment allowance account. Losses expected from future events are not recognised.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.2 Loans and advances, net (continued)

Loan impairment (continued)

Individually assessed loans and advances

Individually assessed loans mainly represent individually significant corporate and commercial loans which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. The Bank assesses whether there is any objective evidence that a loan is impaired for each of these loans on a case-by-case basis at each statement of financial position date.

For those loans where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- the Bank's aggregate exposure to the customer;
- the viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- the amount and timing of expected receipts and recoveries;
- the likely dividend available on liquidation or bankruptcy;
- the extent of other creditors' commitments ranking ahead of, or pari passu with, the Bank and the likelihood of other creditors continuing to support the company;
- the realisable value of security (or other credit mitigants) and likelihood of successful repossession;
- the likely deduction of any costs involved in recovery of amounts outstanding;

The amount of impairment loss is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows excluding future credit losses that have not been incurred, including amounts recoverable from guarantees and collateral, discounted at the loan's original effective interest rate. The amount of the loss is recognised using an allowance account and is included in the consolidated income statement line impairment allowances. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Collectively assessed loans and advances

Impairment is assessed on a collective basis in two circumstances:

- to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment; and
- for homogenous groups of loans that are not considered individually significant.

4 Significant accounting policies (continued)

4.2 Loans and advances, net (continued)

Loan impairment (continued)

Incurred but not yet identified

Individually assessed loans for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics based on industry, product or loan rating for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Bank may have incurred as a result of events occurring before the statement of financial position date, which the Bank is not able to identify on an individual loan basis, and that can be reliably estimated. As soon as information becomes available which identifies losses on individual loans within the group of the customer, those loans are removed from the group of the customer and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account:

- historical loss experience in portfolios of similar credit risk characteristics (for example, by industry sector, loan grade or product);
- the estimated period between impairment occurring and the loss being identified and evidenced by the establishment of an appropriate allowance against the individual loan; and
- management's experienced judgement as to whether current economic and credit conditions are such that the actual level of inherent losses at the statement of financial position date is likely to be greater or less than that suggested by historical experience.

The period between a loss occurring and its identification is estimated by management for each identified portfolio.

Homogenous groups of loans and advances

Statistical methods are used to determine impairment losses on a collective basis for homogenous groups of loans that are not considered individually significant, because individual loan assessment is impracticable. Losses in these groups of loans are recorded on individual basis when individual loans are written off, at which point they are removed from the group.

Impairment of retail loans is calculated by applying a formula approach which allocates progressively higher loss rates in line with the overdue installment date.

Write-off of loans and advances

A loan and advance (and the related impairment allowance) is normally written off, either partially or in full, when there is no realistic prospect of recovery of the principal amount and, for a collateralised loan, when the proceeds from realizing the security have been received.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.2 Loans and advances, net (continued)

Loan impairment (continued)

Reversal of impairment

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in the consolidated income statement in the period in which it occurs.

Renegotiated loans

Retail loans, which are subject to collective impairment review and whose terms have been renegotiated, are no longer considered to be past due and consequently considered impaired only when the minimum required number of payments under the new arrangements have not been received and the borrower has not complied with the revised terms and conditions.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to continuous review to determine whether they remain impaired or are considered to be past due depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the loans to be moved to performing category.

Loans that are either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans for measurement purposes once the minimum number of payments required under the new arrangements have been received. Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to ongoing review to determine whether they remain impaired or should be considered past due. The carrying amount of loans that have been classified as renegotiated loan and this classification is retained until maturity or derecognition.

4.3 Collateral pending sale

The Bank occasionally acquires real estate and other collaterals in settlement of certain loans and advances. Such real estate and other collaterals are stated at the lower of the net realisable value of the loans and advances and the current fair value of such assets less costs to sell at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation are recognised in the consolidated income statement.

4 Significant accounting policies (continued)

4.4 Trading and Investment Securities

Trading and investment securities are initially measured at fair value plus, in case of investment securities not at fair value through profit or loss, incremental direct transaction costs, and subsequently accounted for based on their classification.

Bank's investments are classified into the following categories depending on the nature and purpose of the investment:

i) Trading securities which include investments at fair value through profit or loss (FVTPL)
ii) Investment securities which include available for sale (AFS) and held-to-maturity investments (HTM)

Fair value through profit or loss (FVTPL)

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- It has been acquired principally for the purpose of selling it in the near term; or

- On initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or

- It is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- It forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on re-measurement recognized in income statement.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.4 Trading and Investment Securities (continued)

Held-to-maturity

Investments which have fixed or determinable payments with fixed maturities which the Bank has the intention and ability to hold to maturity, are classified as held to maturity investments.

Held-to-maturity investments are initially recognized at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses, with revenue recognized on an effective yield basis. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective interest rate method.

Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised or impaired.

If there is objective evidence that an impairment on held to maturity investments carried at amortised cost has been incurred, the amount of impairment loss recognized is the difference between the assets carrying amount and the present value of estimated future cash flows, discounted at the investments original effective interest rate, with the resulting impairment loss, if any, in the consolidated income statement.

Investments classified as held to maturity and not close to their maturity, cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to interest rate or prepayment risk, reflecting the longer-term nature of these investments.

Available for sale

Investments not classified as either "fair value through profit or loss" or "held to maturity" are classified as "available for sale".

Available for sale investments are initially recognized at fair value plus any directly attributable transaction cost and are subsequently measured at fair value. Unquoted equity investments whose fair value cannot be measured reliably are carried at cost and tested for impairment, if any.

Gains and losses arising from changes in fair value are recognised in other comprehensive income statement and recorded in cumulative changes in fair value with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is included in the consolidated income statement for the year.

Dividends on available for sale equity instruments are recognised in the consolidated income statement when the Bank's right to receive the dividends is established.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.4 Trading and Investment Securities (continued)

Available for sale (continued)

If available for sale investment is impaired, the difference between the acquisition cost (net of any principal repayments and amortization) and the current fair value, less any previous impairment loss recognised in the consolidated income statement is removed from equity and recognized in the consolidated income statement.

Once an impairment loss has been recognised on an available-for-sale financial asset, the subsequent accounting treatment for changes in the fair value of that asset differs depending on the nature of the available-for-sale financial asset concerned:

- For an available-for-sale debt security, a subsequent decline in the fair value of the instrument is recognised in the income statement when there is further objective evidence of impairment as a result of further decreases in the estimated future cash flows of the financial asset. Where there is no further objective evidence of impairment, the decline in the fair value of the financial asset is recognised directly in equity. If the fair value of a debt security increases in a subsequent period, and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement to the extent of the increase in fair value;

- For an available-for-sale equity security, all subsequent increases in the fair value of the instrument are treated as a revaluation and are recognised directly in equity. Impairment losses recognised on the equity security are not reversed through the income statement. Subsequent decreases in the fair value of the available-for-sale equity security are recognised in the income statement, to the extent that further cumulative impairment losses have been incurred in relation to the acquisition cost of the equity security.

Reclassifications

Reclassification is only permitted in rare circumstances and where the asset is no longer held for the purpose of selling in the short term. Reclassifications are accounted for at the fair value of the financial asset at the date of reclassification.

Derecognition of investment securities

The Bank derecognizes a investment security only when the contractual rights to the cash flows from the investment expire, or when it transfers the investment and substantially all the risks and rewards of ownership of the investment to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognises a collateralized borrowing for the proceeds received.

4 Significant accounting policies (continued)

4.5 Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date.

The Bank enters into a variety of derivative financial instruments to manage the exposure to interest and foreign exchange rate risks, including forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps and currency and interest rate options (both written and purchased).

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists, and the parties intend to settle the cash flows on a net basis.

Derivative fair values are determined from quoted prices in active markets where available. Where there is no active market for an instrument, fair value is derived from prices for the derivative's components using appropriate pricing or valuation models.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. All gains and losses from changes in the fair value of derivatives held for trading are recognised in the consolidated income statement under net gain in dealing in derivatives.

When derivatives are designated as hedges, the Bank classifies them as either: (i) hedges of the change in the fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); (ii) hedges of the variability in highly probable future cash flows attributable to a particular risk with a recognised asset or liability, or a forecast transaction that will affect future reported net income ('cash flow hedges'); or (iii) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

At the inception of a hedging relationship, to qualify the hedge accounting , the Bank documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Bank also requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, primarily derivatives, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Interest on designated qualifying hedges is included in 'Net interest income'.

4 Significant accounting policies (continued)

4.5 Derivative financial instruments (continued)

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the consolidated income statement. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated income statement category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated income statement category as the related hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in consolidated statement of other comprehensive income. The ineffective part of any gain or loss is recognised immediately in the consolidated income statement. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss, in the same line of the consolidated income statement as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. Hedge accounting is discontinued when the Bank revokes the hedging relationship, when the hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting. Any cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. A gain or loss on the effective portion of the hedging instrument is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated income statement. Gains and losses accumulated in equity are included in the consolidated income statement on the disposal of the foreign operation.

4 Significant accounting policies (continued)

4.5 Derivative financial instruments (continued)

Hedge effectiveness testing

To qualify for hedge accounting, the Bank requires that at the inception of the hedge and through its life, each hedge must be expected to be highly effective (prospective effectiveness), and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed. The method the Bank adopts for assessing hedge effectiveness depends on its risk management strategy.

For prospective effectiveness, the hedging instrument must be expected to be highly effective in offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent.

Hedge ineffectiveness is recognised in the consolidated income statement in 'Net gain on dealing in derivatives'.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement in net gain on dealing in derivatives.

4.6 Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Bank's share of the net assets of the associate, less any impairment in the value of individual investments and share of changes in the statement of changes in equity. Losses of an associate in excess of the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate) are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment, at least annually, as part of that investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

4 Significant accounting policies (continued)

4.6 Investments in associates (continued)

Where a Bank's subsidiary or other associate transacts with an associate of the Bank, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

4.7 Impairment of non-financial assets

At each consolidated statement of financial position date, the Bank reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4.8 Investment properties

Investment property is property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes. Investment property is reflected at valuation based on fair value at the statement of financial position date. The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The fair value is determined on periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

4 Significant accounting policies (continued)

4.9 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is charged to income statement so as to write off the depreciable amount of property and equipment over their estimated useful lives using the straight-line method. The depreciable amount is the cost of an asset less its residual value. Land is not depreciated. Estimated useful lives are as follows:

Freehold properties	15 to 25 years
Leasehold properties	5 to 10 years
Furniture, equipment and vehicles	3 to 5 years
Computer equipment and accessories (including computer software)	3 to 10 years

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

4.10 Capital work in progress

Capital work in progress is stated at cost. When the asset is ready for use, capital work in progress is transferred to the appropriate property and equipment category and depreciated in accordance with the Bank's policies.

4.11 Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognised in the consolidated income statement in the period in which they are incurred.

4.12 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

**Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)**

4 Significant accounting policies (continued)

4.13 Customers' deposits and short and medium term borrowings

Customers' deposits and short and medium term borrowings are initially measured at fair value which is normally consideration received, net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective interest method.

Wakala deposits

The Principal (the customers) appoints the agent (the Bank) to invest its funds in Shari'ah compliant Investments. The Principal's funds will form part of the agent's treasury pool of funds that are invested by the agent in compliance with the rules and principles of Islamic Shari'ah as defined by the Fatwa and Shari'ah Supervisory Board of the agent. The agent will declare the profit rate to the customer in advance. The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

4.14 Mandatory convertible securities

The component parts of mandatory convertible securities issued by the Bank are classified separately as equity and financial liability in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the convertible securities as a whole. This is recognised and included as a separate component in the consolidated statement of changes in equity, and is not subsequently re-measured.

4.15 Equity instruments

Debt and equity instruments are classified as either financial liability or equity in accordance with the substance of the contractual arrangement

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognised at the proceeds received, net of direct issue costs.

A financial instrument is classified as equity instrument if, and only if, both conditions (a) and (b) below are met.

(a) The instrument includes no contractual obligation:
    (i) to deliver cash or another financial asset to another entity; or
    (ii) to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the Bank.
(b) If the instrument will or may be settled in the Bank's own equity instruments, it is:
    (i) a non-derivative that includes no contractual obligation for the Bank to deliver a variable number of its own equity instruments; or
    (ii) a derivative that will be settled only by the Bank exchanging a fixed amount of cash or another financial asset for a fixed number of its own equity instruments

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.16 Employees' end of service benefits

The Bank provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Pension and national insurance contributions for the U.A.E. and GCC citizens are made by the Bank in accordance with Federal Law No. 7 of 1999.

4.17 Provisions and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

Provisions for onerous contracts is recognised when the expected benefits to be derived by the Bank from a contract are lower than the unavoidable cost of meeting its obligation under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Bank recognizes any impairment loss on the assets associated with that contract.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Bank's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.18 Sale and repurchase agreements

Securities sold subject to a commitment to repurchase them at a predetermined price at a specified future date (repos), are continued to be recognised in the consolidated statement of financial position and a liability is recorded in respect of the consideration received under short and medium term borrowings. The difference between sale and repurchase price is treated as interest expense using the effective interest rate yield method over the life of the agreement. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated statement of financial position. Amounts paid under these agreements are included in 'Loans and advances to banks' or 'Loans and advances to customers' as appropriate. The difference between purchase and resale price is treated as interest income using the effective yield method over the life of the agreement.

Securities borrowing and lending transactions are usually secured by cash or securities advanced by the borrower. Borrowed securities are not recognised on the statement of financial position or lent securities derecognised. Cash collateral received or given is treated as a loan or deposit; collateral in the form of deposit is not recognised. However, where securities borrowed are transferred to third parties, a liability for the obligation to return the securities to the stock lending counterparty is recorded.

4.19 Acceptances

Acceptances have been considered within the scope of IAS 39 *(Financial Instruments: Recognition and Measurement)* and are recognised as financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

4.20 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantee contracts are initially recognised at their fair value, which is likely to equal the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

4 Significant accounting policies (continued)

4.21 Recognition and de-recognition of financial instruments

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. Regular way purchases and sales of financial assets are recognised on the settlement date. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognised on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus (for an item not subsequently measured at fair value through profit or loss) transaction costs that are directly attributable to its acquisition or issue.

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised from the consolidated statement of financial position. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

When assets are sold to a third party with a concurrent total return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset, it derecognises the asset if it does not retain control over the asset. The rights and obligations retained in the transfer are recognised separately as assets and liabilities as appropriate. The transfers in which control over the asset is retained, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized in its entirety if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank writes off certain loans and investment securities when they are determined to be uncollectible (Note 9).

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.22 Trade and settlement date accounting

The "regular way" purchases and sales of financial assets are recognised on the settlement date basis i.e. the date that the Bank physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Bank has committed to purchase at the consolidated statement of financial position date is recognised in the consolidated income statement for assets classified as held for trading and in other comprehensive income for assets classified as available for sale.

4.23 Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Banks, deposits and balances due from banks, due to banks, items in the course of collection from or in transmission to other banks and highly liquid assets with maturities of less than three months from the date of acquisition, which are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortised cost in the statement of financial position.

4.24 Employees' incentive plan shares

The Bank grants equity-settled share-based payments to employees. These grants will be settled in Abu Dhabi Commercial Bank P.J.S.C.'s shares and are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Bank's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Bank revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

4.25 Offsetting

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts and when the Bank intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

The Bank is party to a number of arrangements, including master netting agreements, that give it the right to offset financial assets and financial liabilities but where it does not intend to settle the amounts net or simultaneously and therefore the assets and liabilities concerned are presented on gross basis.

4 Significant accounting policies (continued)

4.26 Fiduciary activities

The Bank acts as trustees/manager and in other capacities that result in holding or placing of assets on behalf of trusts or other institutions. These assets and income arising thereon are not included in the Bank's consolidated financial statements as they are not assets of the Bank.

4.27 Segment reporting

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Refer to Note 38 on Business Segment reporting.

4.28 Taxation

Provision is made for taxes at rates enacted or substantively enacted by the statement of financial position date on taxable profits of overseas branches and subsidiaries in accordance with the fiscal regulations of the countries in which the Bank operates. Deferred taxation is accounted for in full for all temporary differences between the carrying amount of an asset or liability for accounting purpose and its carrying amount for tax purposes. Deferred tax assets are only recognised to the extent that it is probable that they will be recovered. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

4.29 Revenue and expense recognition

Interest income and expense for all financial instruments except for those classified as held for trading or designated at fair value are recognised in 'interest income' and 'interest expense' in the consolidated income statement using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability.

The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the Bank that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

Interest accruing on loans and advances considered doubtful is excluded from income until received. Subsequently the interest income on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.29 Revenue and expense recognition (continued)

Fee income is earned from a diverse range of services provided by the Bank to its customers. Fee income is accounted for as follows:

- income earned on the execution of a significant act is recognised as revenue when the act is completed (for example, fees arising from negotiating, or participating in the negotiation of, a transaction for a third-party, such as the arrangement for the acquisition of shares or other securities);
- income earned from the provision of services is recognised as revenue as the services are provided (for example, asset management, portfolio and other management advisory and service fees); and
- income which forms an integral part of the effective interest rate of a financial instrument is recognised as adjustment to the effective interest rate (for example, certain loan commitment fees) and recorded in 'interest income'.

Gain or loss on trading and investment securities comprises all unrealized gains and losses from changes in the fair value of held for trading securities and realized gains or losses on disposal of investment securities. Gain or loss on disposal of held to maturity investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs. Gain or loss on disposal of available for sale investments represents the difference between sale proceeds and their original cost net of impairment if any, less associated selling costs.

Dividend income is recognised when the right to receive payment is established.

Murabaha financing

Profit from sales transactions (murabaha) is recognised when the ultimate income is both contractually determinable and quantifiable at the commencement of the transaction. Such income is recognised by proportionately allocating the attributable profits over the period of the credit whereby each financial period shall carry its portion of profits irrespective of whether or not cash is recovered. Income related to non-performing is excluded from the statement of income.

Ijara financing

Ijara income is recognised proportionately to the financial periods over the lease term. Ijara financing is an agreement whereby the Bank (lessor) leases an asset to a customer (lessee), for a specific period against certain rent installments. Ijara could end in transferring the ownership of the asset to the lessee at the end of the lease period. Also, the Bank transfers substantially all the risks and returns related to the ownership of the leased asset to the lessee

Salam Financing

Revenue in salam financing is recognized upon delivery of goods. Salam financing is recognized as an asset when the cash, kind or benefit is paid in advance to the seller for the delivery of the commodity in future

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

4 Significant accounting policies (continued)

4.30 Foreign currencies

Items included in the financial statements of each of the Bank's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements of the Bank are presented in AED, which is the Bank's presentation currency.

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange prevailing at the statement of financial position date. Any resulting exchange differences are included in the income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using rate of exchange at the date of initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised directly in equity if the gain or loss on the non-monetary item is recognised directly in equity. Any exchange component of a gain or loss on the non-monetary is recognised directly in the consolidated income statement if the gain or loss on the non-monetary item is recognised in the income statement.

In the consolidated financial statements, the assets, including related goodwill where applicable, and liabilities of branches, subsidiaries, joint ventures and associates whose functional currency is not AED, are translated into the Bank's presentation currency at the rate of exchange ruling at the statement of financial position date. The results of branches, subsidiaries, joint ventures and associates whose functional currency is not AED are translated into AED at the average rates of exchange for the reporting period. Exchange differences arising from the retranslation of opening foreign currency net investments, and exchange differences arising from retranslation of the result for the reporting period from the average rate to the exchange rate prevailing at the period end, are recognised in other comprehensive income and accumulated in equity in the 'foreign exchange reserve'.

On disposal or partial disposal (i.e. of associates or jointly controlled entities not involving a change of accounting basis) of a foreign operation, exchange differences relating thereto and previously recognised in reserves are recognised in the consolidated income statement on proportionate basis except in the case of partial disposal (i.e. no loss of control) of a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in consolidated income statement.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

5 Critical accounting judgements and key sources of estimation of uncertainty

The reported results of the Bank are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of these consolidated financial statements. IFRS require the management, in preparing the Bank's consolidated financial statements, to select suitable accounting policies, apply them consistently and make judgements and estimates that are reasonable and prudent. In the absence of an applicable standard or interpretation, IAS 8 '*Accounting Policies, Changes in Accounting Estimates and Errors'*, requires management to develop and apply an accounting policy that results in relevant and reliable information in the light of the requirements and guidance in IFRS dealing with similar and related issues and the IASB's Framework for the Preparation and Presentation of Financial Statements. The judgements and assumptions involved in the Bank's accounting policies that are considered by the Board of Directors to be the most important to the portrayal of its financial condition are discussed below. The use of estimates, assumptions or models that differ from those adopted by the Bank would affect its reported results.

5.1 Loans and advances

The impairment allowance for loan losses is established through charges to the consolidated income statement in the form of an impairment allowance for doubtful loans and advances.

5.1.1 Individually assessed loans

Impairment losses for individually assessed loans are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate and commercial loans and advances which are individually significant accounts or are not subject to the portfolio-based-approach.

The following factors are considered by management when determining allowance for impairment on individual loans and advances which are significant:

- The amount expected to be realised on disposals of collaterals.
- The Bank's ability to enforce its claim on the collaterals and associated cost of litigation.
- The expected time frame to complete legal formalities and disposals of collaterals.

The Bank's policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired loans continue to be classified as impaired unless they are fully current and the collection of scheduled interest and principal is considered probable.

5 Critical accounting judgements and key sources of estimation of uncertainty (continued)

5.1 Loans and advances (continued)

5.1.2 Collectively assessed loans

Collective assessment of allowance for impairment is made for overdue retail loans with common features which are not individually significant and performing loans which are not found to be individually impaired.

The following factors are considered by management when determining allowance for impairment for such loans:

Retail loans – All the loans falling under similar overdue category are assumed to carry similar credit risk and allowance for impairment is taken on a gross basis.

Other performing loans – The management of the Bank assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the consolidated statement of financial position date.

5.2 Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent, practical models use only observable data, however; areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

5.3 Impairment of available for sale investments

The Bank exercises judgment to consider impairment on the available for sale investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgment, the Bank evaluates among other factors, the normal volatility in market price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

5 Critical accounting judgements and key sources of estimation of uncertainty (continued)

5.4 Impairment of investments in associates

After application of equity method of accounting, the Bank determines whether it is necessary to recognise for any additional impairment loss on the carrying value of the investment in associate by comparing its recoverable amount with the higher of value in use or fair value less costs to sell with its carrying amount.

In determining the value in use of the investment, the Bank estimates:

i) its share of the present value of the estimated future cash flows expected to be generated by the associates, including the cash flows from the operations of the associates and the proceeds on the ultimate disposal of the investment; or

ii) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

5.5 Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt.

b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

6 Cash and balances with Central Banks

	2009 AED'000	2008 AED'000
Cash on hand	**470,374**	509,628
Balances with Central Banks	**3,668,641**	3,151,381
Certificate of deposits with Central Bank	**-**	250,000
	4,139,015	3,911,009

The geographical concentration is as follows:

	2009 AED'000	2008 AED'000
Within the U.A.E.	**4,113,522**	3,890,266
Outside the U.A.E.	**25,493**	20,743
	4,139,015	3,911,009

7 Deposits and balances due from banks

	2009 AED'000	2008 AED'000
Current and demand deposits	**195,154**	143,247
Murabaha placements	**71,000**	586,000
Placements	**18,082,834**	16,799,175
	18,348,988	17,528,422

The geographical concentration is as follows:

	2009 AED'000	2008 AED'000
Within the U.A.E.	**5,719,958**	6,910,198
Outside the U.A.E.	**12,629,030**	10,618,224
	18,348,988	17,528,422

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

8 Trading securities

	2009 AED'000	2008 AED'000
Quoted – Equity instruments	**86,561**	-

The geographical concentration is as follows:

Trading securities	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Quoted – Equity instruments	**6,962**	**67,125**	**12,474**	**86,561**

Trading securities represent equity investments held by ADCB MSCI UAE Arabian Index Fund, a subsidiary of the Bank that present the Bank with an opportunity of return through dividend income and trading gains. They have no fixed maturity or coupon rate. The fair value of these investments is based on quoted market prices.

9 Loans and advances, net

	2009 AED'000	2008 AED'000
Overdrafts (Retail and Corporate)	**15,537,675**	22,376,570
Retail loans	**13,642,012**	11,376,290
Corporate loans	**87,781,570**	74,777,891
Credit cards	**1,442,136**	1,138,426
Islamic financing	**1,530,043**	46,188
Other facilities	**909,113**	1,355,735
	120,842,549	111,071,100
Less: Allowance for impairment	**(4,232,257)**	(1,990,011)
	116,610,292	109,081,089

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

9 Loans and advances, net (continued)

The Bank's risk classification of loans and advances which is in adherence with the recommendations of Central Bank of United Arab Emirates and Basel II guidelines is as follows:

Risk Category	
Performing loans	Upto 30 days past due
Overdue but not impaired loans	Between 31 and 90 days past due
Non performing loans	Over 91 days past due

The risk classification of loans and advances are as follows:

	2009 AED'000	2008 AED'000
Performing loans	**110,352,702**	104,615,487
Over due but not impaired loans	**4,248,171**	5,195,330
Non performing loans	**6,241,676**	1,260,283
	120,842,549	111,071,100
Less: Allowance for impairment	**(4,232,257)**	(1,990,011)
	116,610,292	109,081,089

Loans and advances include an interest free loan to the Government of Abu Dhabi ("Government") of AED 495,150 thousand (2008 – AED 545,400 thousand). This loan arose as a result of the Government acquiring certain non-performing loans in previous years and were indemnified by the Government through a guarantee. The Bank has an equal amount of long term deposit against the interest free loan to Government (Note 17).

Collaterals

The Bank holds collaterals against loans and advances in the form of mortgage interests over properties, vehicles and machineries, cash margins, fixed deposits, guarantees and others. The Bank accepts guarantees mainly from well reputed local or international banks, well established local or multinational corporates and high net-worth private individuals. The Bank carries all collaterals at cost except for listed securities, which are being fair valued through a separate share lending system. The carrying value of these collaterals at December 31, 2009 approximates to AED 102,336,086 thousand (2008 - AED 77,922,451 thousand).

During the year, the Bank has started fair valuation exercise whereby around fifty percent of its mortgage collaterals were fair valued through external evaluators to assess and estimate that the fair value approximates carrying value.

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

9 Loans and advances, net (continued)

Movement of the individual and collective impairment allowance on loans and advances is as follows:

	2009			2008		
	Individual impairment AED'000	**Collective impairment AED'000**	**Total AED'000**	Individual Impairment AED'000	Collective impairment AED'000	Total AED'000
At January 1	**930,739**	**1,059,272**	**1,990,011**	716,492	433,465	1,149,957
Charge for the year	**2,618,562**	**459,001**	**3,077,563**	292,079	642,643	934,722
Recoveries	**(109,248)**	**-**	**(109,248)**	(176,282)	-	(176,282)
Net amounts written (off)/back	**(713,311)**	**(13,509)**	**(726,820)**	105,193	(16,403)	88,790
Currency translation	**661**	**90**	**751**	(6,743)	(433)	(7,176)
At December 31	**2,727,403**	**1,504,854**	**4,232,257**	930,739	1,059,272	1,990,011

The economic sector composition of the loans and advances portfolio net of interest in suspense is as follows:

	2009			2008		
	Within the U.A.E. AED'000	**Outside the U.A.E. AED'000**	**Total AED'000**	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000
Economic sector						
Agriculture	**10,831**	**-**	**10,831**	13,743	-	13,743
Energy	**3,108,411**	**247,967**	**3,356,378**	468,815	218,107	686,922
Trading	**1,161,429**	**313,138**	**1,474,567**	1,559,923	638,664	2,198,587
Contractor finance	**2,992,583**	**740,156**	**3,732,739**	3,629,917	650,573	4,280,490
Development & construction	**18,565,551**	**-**	**18,565,551**	16,189,232	-	16,189,232
Real Estate investment	**10,289,688**	**-**	**10,289,688**	7,199,661	-	7,199,661
Transport	**3,525,066**	**201,205**	**3,726,271**	3,679,115	214,223	3,893,338
Personal	**5,643,364**	**301,417**	**5,944,781**	6,708,469	299,492	7,007,961
Personal – Retail loans	**16,319,076**	**7,738**	**16,326,814**	14,322,574	8,867	14,331,441
Personal – Loans against securities trading	**13,548,826**	**-**	**13,548,826**	14,427,247	-	14,427,247
Government	**1,568,521**	**-**	**1,568,521**	3,137,112	-	3,137,112
Financial institutions	**5,004,461**	**2,325,129**	**7,329,590**	11,137,108	2,498,786	13,635,894
Manufacturing	**2,459,748**	**118,373**	**2,578,121**	1,791,468	277,038	2,068,506
Services	**27,316,443**	**5,031,395**	**32,347,838**	16,319,259	4,922,047	21,241,306
Others	**42,033**	**-**	**42,033**	759,660	-	759,660
	111,556,031	**9,286,518**	**120,842,549**	101,343,303	9,727,797	111,071,100
Less: Impairment allowance			**(4,232,257)**			(1,990,011)
Total			**116,610,292**			109,081,089

10 Derivative financial instruments

In the ordinary course of business the Bank enters into various types of derivative transactions that are effected by variables in the underlying instruments and subject to changes in the underlying instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index. Derivative financial instruments, which the Bank enters into includes forwards, options, futures and swaps.

The Bank uses the following derivative financial instruments for both hedging and non-hedging purposes.

Forward transactions

Currency forwards represent commitments to purchase foreign and domestic currencies, including non-deliverable spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Swap transactions

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps). No exchange of principal takes place, except for certain cross currency swaps. The Bank's credit risk represents the potential loss if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Option transactions

Foreign currency and Interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Bank and a customer over the counter (OTC).

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

10 Derivative financial instruments (continued)

The fair values of derivative financial instruments held are set out below.

	Fair values	
	Assets AED'000	**Liabilities AED'000**
At December 31, 2009		
Derivatives held for trading		
Forward foreign exchange contracts	**687,618**	**688,361**
Interest rate swaps and forward rate agreements	**3,479,411**	**3,459,607**
Options	**267,054**	**265,910**
Futures	**5,309**	**3,790**
Commodity forwards	**34,579**	**20,062**
Energy swaps	**21,289**	**20,888**
	4,495,260	**4,458,618**
Derivatives held for hedging	**457,759**	**230,871**
	4,953,019	**4,689,489**

	Fair values	
	Assets AED'000	Liabilities AED'000
At December 31, 2008		
Derivatives held for trading		
Forward foreign exchange contracts	1,036,452	1,044,644
Interest rate swaps and forward rate agreements	3,743,250	3,812,645
Options	457,996	442,632
Futures	13,224	11,773
Commodity forwards	558,356	534,015
Energy swaps	393,408	392,991
	6,202,686	6,238,700
Derivatives held for hedging	414,927	540,193
	6,617,613	6,778,893

The derivatives held for hedging consist of interest rate swaps, cross currency swaps and foreign exchange forward contracts.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

10 Derivative financial instruments (continued)

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. The Bank enters into derivative contracts with financial institutions and corporates which are of good credit rating.

Derivatives held or issued for trading purposes

The Bank's trading activities are predominantly related to offering hedging solutions to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks. The Bank also manages risk taken as a result of client transactions or initiate positions with the expectation of profiting from favourable movement in prices, rates or indices.

Derivatives held or issued for hedging purposes

The Bank uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange and interest rates. The Bank uses forward foreign exchange contracts, cross currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. In all such cases the hedging relationship and objectives, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for based on type of the hedge.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

11 Investment securities

	2009			
	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Available for sale investments				
Quoted:				
Floating rate notes (FRNs)	-	-	58,644	58,644
Collateralised debt obligations (CDOs)	-	-	210,706	210,706
Equity instruments	13,011	-	335	13,346
Bonds	1,837,706	2,057	52,046	1,891,809
Government securities	402,542	379,000	313,783	1,095,325
Total Quoted	2,253,259	381,057	635,514	3,269,830
Unquoted:				
Floating rate notes (FRNs)	-	-	144,988	144,988
Equity instruments	229,128	-	66	229,194
Bonds	687,319	-	-	687,319
Mutual funds	41,413	-	-	41,413
Total Unquoted	957,860	-	145,054	1,102,914
Total available for sale investments	3,211,119	381,057	780,568	4,372,744

Bonds in Quoted investment include Bonds of fair value AED 547,821 in public sector companies.

During the year, the Bank entered into repurchase agreements and total return swap agreements whereby Bonds with carrying value of AED 1,194,765 thousand were pledged and held by counter parties as collateral. The following table reflects the carrying value of these Bonds and the associated financial liabilities as at December 31, 2009.

	Carrying value of pledged assets AED'000	Carrying value of associated liabilities AED'000
Total return swaps	616,521	636,394
Repurchase financing	578,244	440,760
	1,194,765	1,077,154

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

11 Investment securities (continued)

	2008			
	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Available for sale investments				
Quoted:				
Floating rate notes (FRNs)	-	-	69,738	69,738
Collateralised debt obligations (CDOs)	-	-	290,620	290,620
Equity instruments	89,620	-	326	89,946
Bonds	912,124	2,057	-	914,181
Mutual funds	71,283	-	-	71,283
Government securities	72,377	105,782	281,509	459,668
Total Quoted	1,145,404	107,839	642,193	1,895,436
Unquoted:				
Floating rate notes (FRNs)	-	-	150,380	150,380
Equity instruments	342,486	-	94	342,580
Bonds	1,034,341	-	-	1,034,341
Mutual funds	-	-	57	57
Total Unquoted	1,376,827	-	150,531	1,527,358
Total available for sale investments	2,522,231	107,839	792,724	3,422,794

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

11 Investment securities (continued)

The movement in investment securities for the year 2009 is as follows:

	Available for sale AED'000
Fair value at January 1, 2009	**3,422,794**
Acquisitions	**2,471,876**
Disposals	**(762,386)**
Maturities	**(697,722)**
Fair value adjustments	**441,715**
Investments written off during the year	**(87,529)**
Transfer from investment in associate (Note 12)	**80,000**
Transfer to investment in associate (Note 12)	**(116,325)**
Elimination upon acquisition of controlling interest in an investment (Note 48)	**(100,000)**
Exchange difference	**6,398**
Impairment allowance	**(286,077)**
Balance at December 31, 2009	**4,372,744**

The movement in investment securities for the year 2008 is as follows:

	Available for sale AED'000	Held to maturity AED'000	Total AED'000
Fair value at January 1, 2008	2,899,561	68,627	2,968,188
Acquisitions	2,477,760	-	2,477,760
Transfers	53,887	(53,887)	-
Disposals	(1,051,304)	-	(1,051,304)
Maturities	(157,939)	-	(157,939)
Fair value adjustments	(519,557)	-	(519,557)
Investments written off during the year	-	(14,740)	(14,740)
Exchange difference	2,924	-	2,924
Impairment allowance	(282,538)	-	(282,538)
Balance at December 31, 2008	3,422,794	-	3,422,794

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

11 Investment securities (continued)

The movement in impairment allowance is as follows:

	2009 AED'000	2008 AED'000
Opening Balance	**410,609**	493,535
Charge for the year	**540,109**	296,070
Reversal on disposal of available for sale investments	**(254,032)**	(13,532)
Exchange difference	**1,067**	-
Investments written off	**(271,676)**	(365,464)
Balance at 31 December	**426,077**	410,609

During 2008 the Bank reclassified financial asset from the held-for-trading category into the available-for-sale category. This reclassification is made in accordance with paragraph 50B of IAS 39 as amended. The turbulence in the financial markets during the second half of 2008 was regarded by management as rare circumstances in the context of paragraph 50B of IAS 39 as amended. This financial asset represents investment in fund that provides the Bank with an opportunity of return through dividend incomes and trading gains. It does not have fixed maturity or coupon rate. The fair value is determined by the Fund's managers based on the net asset value. The fair value of the reclassified financial assets, at the date of reclassification, was AED 116,325 thousand and at June 30, 2009 was AED 34,099 thousand. The fair value loss on this financial asset at June 30, 2009 amounting to AED 82,283 thousand (December 31, 2008 – AED 88,992 thousand) was recognized under cumulative changes in fair values in the consolidated statement of comprehensive income. With effect from June 30, 2009, the Bank increased its interest and gained significant influence on this financial asset and the financial asset was transferred from investment available-for-sale to investment in associates (Note 12). The cumulative fair value loss on this financial asset from initial reclassification date has been reclassified from other comprehensive income to the consolidated income statement.

With effect from June 30, 2009, the Bank increased its interest and gained significant influence on ADCB MSCI U.A.E. Index Fund. The Fund was transferred from investment available-for-sale to investment in associates (Note 12). The cumulative fair value loss on the fund amounting to AED 4,649 thousand has been reclassified from other comprehensive income to the consolidated income statement.

During the year, the Bank gained control in ADCB MSCI Arabian Markets Index Fund through increase in stake in the unit capital of the fund. On the date of acquisition of the controlling interest the fair value of investment in the fund was AED 79,557 thousand with cumulative loss recognised in other comprehensive income amounting to AED 57,173 thousand. As a result of the acquisition of the controlling interest, the cumulative fair value loss amounting to AED 57,173 thousand has been reclassified from other comprehensive income to income statement. The Bank's effective holding in the fund as at December 31, 2009 is 96% (Note 48).

The investment securities include Structured Finance Assets, such as Collateralized Debt Obligations (CDOs), and Cash flow CDOs, which are dependent on the performance of collateral located outside U.A.E., primarily investment grade corporate credit assets in the U.S.A., Western Europe and Asia.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

11 Investment securities (continued)

The nominal value and fair value of these securities at December 31, 2009 amounted to AED 933,249 thousand and AED 414,338 thousand respectively (2008 - AED 1,243,259 thousand and AED 510,738 thousand respectively). These securities have been negatively impacted by the global financial crisis and subsequent recession that stemmed from the U.S.A. subprime situation, corporate credit events and corporate insolvencies in both the U.S.A. and Europe, as well as ongoing liquidity shortages. The continued uncertainty in long-term outlook for the global economy and increased volatility in credit default spreads also continues to negatively impact fair values. The above exposure is net of collective impairment allowance amounting to AED 404,663 (2008 - AED 400,300 thousand) against the total above exposure.

The impairment allowances have been estimated by the Banks' management based on the present market and the expected economic conditions of the underlying investments.

The Bank originally appointed two independent advisors of international repute to act as asset managers and advisors to the portfolio of structured investments. During 2009, the Bank consolidated the advisory mandate with one of them.

The investment advisor advises on restructuring as well on potential divestments and provides the assessments of the realizable economic value of these securities.

The investment advisor uses a combination of quantitative and qualitative approaches to assess the economic value and potential expected losses, if any, on investment securities. Evaluation models use several scenario runs with varying assumptions on price volatility and varying magnitudes of economic downturns. Models also vary collateral assumptions based on shifting risk elements to assess the potential severity of loss on the underlying portfolio. Loss breakpoints for particular tranches of risk represented by individual investments are also assessed under different scenarios.

The specification of models, the valuation fields and inputs used in assessments of economic value are adjusted for market dynamics according to the underlying asset class and nature of the collateral supporting the investments. Parameters for loan-backed transactions including material movements in loan prices on a weekly basis greater than a specified amount or a specified percent are captured to recalibrate values, such as a loan that has gone below the 25th percentile within all the loan prices across its industry. In addition, parameter measures specific for CDO structures include proximity to coverage tests, assessments for underlying collateral that either a particular position has (i) increased the percentage of loans in stress (60 +/- day delinquencies, foreclosure, credit default swaps movements) by a specified amount or (ii) reached a threshold level of stress. Additional quantitative analysis include cash flow modeling, predicting the probability of any diversion test (over-collateralization or interest-coverage) being breached.

Other qualitative measures include the potential implications of rating changes, such as forced triggers, on the investments, as well as rating changes on assets in the underlying portfolio.

The maximum exposure to credit risk on investment securities is limited to the carrying value of these investments. The Bank monitors the credit ratings of the counterparties with whom the investments are placed on a regular basis.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

12 Investments in associates

Name of associate	2009 AED'000	2008 AED'000
RHB Capital Berhad	**4,474,784**	4,327,529
Abu Dhabi Finance P.J.S.C.	**-**	100,000
Al Nokhitha Fund	**73,150**	-
ADCB MSCI U.A.E. Index Fund	**34,725**	-
Carrying value	**4,582,659**	4,427,529

Details of Bank's investment in associates are as follows:

	Name of associate	Principal activities	Country of incorporation	Ownership Interest 2009	Ownership Interest 2008
(a)	RHB Capital Berhad	Wholesale, retail and Islamic banking, financial advisory and underwriting, insurance and property investment.	Malaysia	25%	25%
(b)	Abu Dhabi Finance P.J.S.C.	Mortgage finance.	U.A.E.	-	20%
(c)	Al Nokhitha Fund	Investing in Equities listed in Abu Dhabi Exchange, Dubai Financial Market and in any other recognised stock exchanges of the GCC countries.	U.A.E.	22%	-
(d)	ADCB MSCI U.A.E. Index Fund	Investing in Equities listed in Abu Dhabi Exchange, Dubai Financial Market, Dubai International Financial Exchange determined by MSCI UAE Index ("Index Securities").	U.A.E.	30%	-

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

12 Investments in associates (continued)

(a) On May 14, 2008 the Bank acquired through its wholly owned subsidiary ADCB Holdings (Malaysia) Sdn Berhad a 25% equity stake in RHB Capital Berhad, Malaysia ("Associate").

The cost of acquisition over the Bank's share of the net fair value of the identifiable assets and liabilities of the associate recognised at the date of the acquisition amounting to AED 2,048,390 thousand was identified as goodwill and included in the carrying value of investment in associate. Management has assessed the total carrying value of investment in associate for impairment as detailed in Note 5.4 and determined that no impairment has occurred.

The Bank's share of profit of associate is adjusted for amortization of tangible and intangible assets identified during goodwill assessment and also appropriately adjusted for the differences arising on conversion from Malaysian Accounting Standards to IFRS.

The equity instruments of RHB Capital Berhad are quoted in Bursa Stock Exchange, Malaysia and the quoted value of the investment at December 31, 2009 amounted to AED 3,061,303 thousand (2008 – AED 2,233,736 thousand).

At December 31, 2009, the Bank partially hedged its currency translation risk in net investment in RHB Capital Berhad through foreign exchange forward contracts and designated these contracts as hedging derivatives. The hedging instruments resulted in losses of AED 107,360 thousand which have been recognised in other comprehensive income. No amounts are withdrawn from equity during the year as there was no disposal of net investment in associate.

(b) In 2008, the Bank contributed to the extent of 20% of equity in Abu Dhabi Finance P.J.S.C., United Arab Emirates ("Associate"). The principal activities of the Associate is mortgage finance. During the period, the Bank disposed 4% of its investment in Abu Dhabi Finance P.J.S.C. , reducing the Bank's equity stake to 16%. The transaction has not resulted in any gain or loss on disposal and accordingly, the investment has been transferred to available-for-sale investments at its carrying value.

(c) With effect from June 2009, the Bank increased its ownership interest in Al Nokhita Fund and obtained significant influence over the fund. This investment in associate is held by a subsidiary of the Bank – Al Nokhitha Feeder Fund.

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

12 Investments in associates (continued)

(d) With effect from June 2009, the Bank increased its ownership interest in ADCB MSCI U.A.E. Index Fund and obtained significant influence over the fund. This investment in associate is held by a subsidiary of the Bank – MSCI UAE Index Fund Feeder Fund.

The latest available financial information in respect of Bank's associates are summarised as follows:

	2009 AED'000	2008 AED'000
Total assets	**117,660,417**	111,212,413
Total liabilities	**108,334,766**	102,870,437
Net assets	**9,325,651**	8,341,976
Total interest and other operating income	**4,357,319**	3,665,193
Total profit for the period	**997,564**	1,116,834

13 Investment properties

	2009 AED'000	2008 AED'000
At January 1	**632,492**	445,730
Transfer in from property and equipment, net	**-**	8,614
(Decrease)/increase in fair value of investment properties	**(83,000)**	178,148
At December 31	**549,492**	632,492

The fair value of the Bank's investment properties has been arrived at on the basis of valuations carried out by independent valuers that are not related to the Bank. The fair value of investment properties is estimated periodically by considering recent prices for similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at these prices. The effective date of the valuation is December 31, 2009. All the investment properties of the Bank are located within the U.A.E.

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

14 Other assets

	2009 **AED'000**	2008 AED'000
Interest receivable	**607,052**	797,460
Withholding tax	**37,743**	17,795
Prepayments	**121,985**	145,915
Clearing receivables	**106**	70,562
Acceptances	**4,631,510**	887,669
Others	**375,891**	314,279
	5,774,287	2,233,680

Acceptances arise when the Bank guarantees payments against documents drawn under letters of credit.

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

15 Property and equipment, net

	Freehold properties AED'000	Leasehold properties AED'000	Furniture, equipment and vehicles AED'000	Computer equipment and accessories AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation						
At January 1, 2008	413,176	57,136	93,060	191,172	39,259	793,803
Exchange difference	(1,040)	-	(934)	(79)	-	(2,053)
Additions during the year	1,367	317	11,651	3,515	135,966	152,816
Transfers	6,895	7,404	13,887	28,477	(52,550)	4,113
Transfer to expenses	-	-	-	-	(2,365)	(2,365)
Transfer to investment properties	(24,821)	-	-	-	-	(24,821)
At January 1, 2009	**395,577**	**64,857**	**117,664**	**223,085**	**120,310**	**921,493**
Exchange difference	-	-	463	17	-	480
Additions during the year	5,510	141	2,642	7,494	295,309	311,096
Transfers	5,074	12,778	12,694	108,917	(139,463)	-
Transfer to expenses	-	-	-	-	(2,741)	(2,741)
Disposals during the year	(176)	(1,562)	(1,706)	(1,221)	-	(4,665)
At December 31, 2009	**405,985**	**76,214**	**131,757**	**338,292**	**273,415**	**1,225,663**
Accumulated depreciation						
At January 1, 2008	132,524	17,582	55,194	100,113	-	305,413
Exchange difference	(11)	-	(825)	(48)	-	(884)
Charge for the year	14,970	5,585	12,080	24,695	-	57,330
Transfer to investment properties	(16,207)	-	-	-	-	(16,207)
At January 1, 2009	**131,276**	**23,167**	**66,449**	**124,760**	-	**345,652**
Exchange difference	(4)	-	215	17	-	228
Charge for the year	15,912	6,591	14,842	51,738	-	89,083
Disposals during the year	(12)	-	(493)	(516)	-	(1,021)
At December 31, 2009	**147,172**	**29,758**	**81,013**	**175,999**	-	**433,942**
Carrying amount						
At December 31, 2009	**258,813**	**46,456**	**50,744**	**162,293**	**273,415**	**791,721**
At December 31, 2008	264,301	41,690	51,215	98,325	120,310	575,841

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

16 Due to banks

	2009 AED'000	2008 AED'000
Current and demand deposits	**523,878**	998,342
Deposits - banks	**4,214,323**	5,906,921
	4,738,201	6,905,263

17 Customers' deposits

	2009 AED'000	2008 AED'000
By category :		
Call and demand deposits	**17,510,668**	14,653,828
Savings deposits	**1,271,803**	1,230,648
Time deposits	**56,607,806**	64,438,702
Long term government deposits (Note 9)	**495,150**	545,400
Islamic product related deposits	**7,266,047**	2,115,062
Euro commercial papers	**3,148,483**	1,377,181
	86,299,957	84,360,821
By sector :		
Retail	**20,682,752**	15,489,461
Corporate	**43,579,493**	38,690,102
Government	**22,037,712**	30,181,258
	86,299,957	84,360,821

The Euro commercial papers are issued globally with the majority issued in the United Kingdom and other countries of Europe.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

17 Customers' deposits (continued)

Islamic related product deposits include the following:

	2009 AED'000	2008 AED'000
Product		
Mudaraba savings and deposits	**4,899,358**	158,697
Wakala deposits	**757,972**	1,937,984
Wadiah	**1,608,717**	18,381
	7,266,047	2,115,062

Profit distributed to Wakala deposit holders during the year amounted to AED 104,777 thousand (2008 – AED 27,865 thousand).

Profit distribution for Investment Account Holders

Profit distribution is made between deposit and saving account holders and shareholders according to the instructions of Fatwa and Shari'ah supervisory board:

Net income of all items of Mudaraba Pool at the end of each quarter, is the net profit distributable between the shareholders and depositors and saving account holders.

The share of unrestricted investment and saving account holders is calculated out from the net profit at the end of each quarter by adopting the separate investment account method after deducting the agreed upon and declared Mudaraba fee percentage.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

18 Mandatory convertible securities

During 2008, the Bank issued mandatory convertible securities ("MCS") with nominal value amounting to AED 4,800,000 thousand that are convertible into new ordinary registered shares at the end of the third year from the date of issue. The U.A.E. Central Bank approved that the MCS can be considered for Tier 1 Capital adequacy regulation requirements and accordingly included in capital adequacy computation (Note 49). Interest is payable at EIBOR plus 1.5 per cent per annum on a quarterly basis, in arrears, up and until the conversion date.

The proceeds received from issue of MCS have been split between a liability component arising from interest payments and an equity component, representing the residual attributable to the future delivery of the equity of the Bank, as follows:

	AED'000
Proceeds of issue	**4,800,000**
Issue costs	**(21,635)**
Net proceeds received	**4,778,365**
Liability component on initial recognition	**(144,482)**
Equity component on initial recognition	**4,633,883**

	2009 AED'000	2008 AED'000
Liability component	**168,435**	144,482
Interest expense for the year	**153,296**	168,106
Interest paid during the year	**(212,682)**	(144,153)
	109,049	168,435

The interest charged for the year is calculated by applying an effective interest rate of 2.08 % p.a. (2008 – 7.80%). The liability component is measured at amortised cost.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

19 Short and medium term borrowings

The details of short and medium term borrowings as at December 31, 2009 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Total AED'000
Unsecured notes	Australian Dollar (AUD)	-	164,605	-	164,605
	Hong Kong Dollar (HKD)	-	142,092	-	142,092
	Japanese Yen (JPY)	-	198,734	-	198,734
	Pound Sterling (GBP)	-	2,950,337	-	2,950,337
	Slovak Koruna (SKK)	-	131,401	-	131,401
	South African Rand (ZAR)	-	49,652	-	49,652
	Swiss Franc (CHF)	532,396	1,064,792	-	1,597,188
	Singapore Dollar (SGD)	379,645	-	-	379,645
	U.A.E. Dirham (AED)	900,000	1,300,000	1,253,000	3,453,000
	US Dollar (US$)	3,746,460	73,460	3,673,000	7,492,920
		5,558,501	6,075,073	4,926,000	16,559,574
Syndicated loans	US Dollar (US$)	3,291,008	3,789,801	3,739,849	10,820,658
Borrowings through total return swaps	US Dollar (US$)	-	-	402,194	402,194
	U.A.E. Dirham (AED)	-	-	234,200	234,200
Borrowings through repurchase agreements	US Dollar (US$)	-	-	440,760	440,760
		8,849,509	9,864,874	9,743,003	28,457,386
Fair value adjustment on short and medium term borrowings being hedged					464,418
					28,921,804

Included in short and medium term borrowings is a carrying amount of AED 2,523,792 thousand which have been hedged using cross currency swaps.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

19 Short and medium term borrowings (continued)

The details of short and medium term borrowings as at December 31, 2008 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	3-5 years AED'000	Total AED'000
Unsecured notes	Australian Dollar (AUD)	-	-	126,489	126,489
	Euro (EUR)	256,366	-	-	256,366
	Hong Kong Dollar (HKD)	-	47,394	94,787	142,181
	Japanese Yen (JPY)	-	202,917	-	202,917
	Pound Sterling (GBP)	-	2,677,158	-	2,677,158
	Slovak Koruna (SKK)	-	-	127,629	127,629
	South African Rand (ZAR)	-	-	39,083	39,083
	Swiss Franc (CHF)	-	1,550,225	-	1,550,225
	Singapore Dollar (SGD)	-	369,749	-	369,749
	UAE Dirham (AED)	4,160,000	-	1,253,000	5,413,000
	US Dollar (US$)	238,745	3,783,190	-	4,021,935
		4,655,111	8,630,633	1,640,988	14,926,732
Syndicated loans	US Dollar (US$)	1,819,972	3,474,658	6,978,700	12,273,330
	Euro (EUR)	820,372	-	-	820,372
		7,295,455	12,105,291	8,619,688	28,020,434
Fair value adjustment on short and medium term borrowings being hedged					406,755
					28,427,189

Included in short and medium term borrowings is a carrying amount of AED 2,762,537 thousand which have been hedged using cross currency swaps.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

19 Short and medium term borrowings (continued)

Interest on unsecured notes are payable quarterly in arrears and the coupon rates as at December 31, 2009 are as follows:

Currency	Within 1 year	1-3 years	3-5 years
AUD	-	3 months AUD-BBSW plus 30 basis points	-
HKD	-	3 months HIBOR offer rate plus 29 to 35 basis points	-
JPY	-	Fixed rate of 1.66% p.a.	-
GBP	-	Fixed rate of 5.625% p.a.	-
SKK	-	3 months BRIBOR plus 11 basis points	-
ZAR	-	3 months JIBAR plus 41 basis points	-
CHF	3 months LIBOR plus 10 basis points	Fixed rate of 2.76% p.a	-
SGD	Fixed rate of 4.08% p.a	-	-
AED	3 months EIBOR plus 200 basis points	3 months EIBOR plus 250 basis points	Fixed rate of 6% p.a
US$	Fixed rate of 5.25% p.a. & 3 months LIBOR plus 35 basis points	3 months LIBOR plus 30 to 110 basis points	Fixed rate of 4.75% p.a

Interest on the syndicated loans are payable in monthly coupons in arrears with 25 basis points to 27.5 basis points over 1 month LIBOR, quarterly coupons in arrears with 27.5 basis points to 185 basis points over 3 months LIBOR. The Bank has option to roll over the syndicated loan for a further period of two years from the date of maturity. Interest on the subordinated floating rate notes is payable quarterly in arrears at a coupon rate of 60 basis points over 3 month LIBOR.

The Bank also has an unsecured standby facility of US$ 25,000 thousand (December 31, 2008 – US$ 175,000 thousand) from a consortium of banks with a drawdown period of six months.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

20 Long term borrowings

Instrument	Currency	2009 AED'000	2008 AED'000
Unsecured notes	**Turkish Lira (TRY)**	**90,204**	88,527
	U.A.E. Dirham (AED)	**500,000**	500,000
	US Dollar (US$)	**73,460**	73,460
		663,664	661,987
Subordinated floating rate notes	**US Dollar (US$)**	**1,328,891**	1,469,200
Tier II loan	**U.A.E. Dirham (AED)**	**6,617,456**	-
Fair value adjustment on long term borrowings being hedged		**9,483**	8,172
		8,619,494	2,139,359

Interest on unsecured notes are payable in arrears and the coupon rates as at December 31, 2009 are as follows:

<u>Currency</u>	<u>Over 5 years</u>
TRY	Fixed rate of 12.75% p.a.
AED	Fixed rate of 6% p.a.
US$	Fixed rate of 5.3875% p.a.

Interest on the subordinated floating rate notes is payable quarterly in arrears at a coupon rate of 60 basis points over 3 months LIBOR. The subordinated floating rate notes were obtained from financial institutions outside the U.A.E. and qualify as Tier II subordinated loan capital for the first 5 year period till 2011 and thereafter it will be amortised at the rate of 20% per annum till 2016 for capital adequacy calculation (Note 49) if these are not redeemed during 2011. This has been approved by the Central Bank of the U.A.E..

Tier II loan

In 2008, the U.A.E. federal government provided liquidity support in the form of new government deposits to the U.A.E.'s major commercial banks, including ADCB. Late in 2008, the U.A.E. federal government made an offer to convert these deposits into Tier II qualifying loans. In March 2009, the Bank accepted this offer to convert approximately AED 6,617,456 thousand government deposits into Tier II qualifying loans. As per this offer, the Tier II qualifying loan will mature seven years from the date of the issue and will carry interest rate payable on a quarterly basis at a fixed rate of 4 percent per annum commencing March 31, 2009 for the first two years, 4.5 percent per annum for the third year, 5 percent per annum for the fourth year and 5.25 percent per annum for the remaining period. The terms also provide that ADCB will have a call option to repay the loans partially or fully at the end of five years from the date of issue. For regulatory purposes, the loan qualifies as Tier II capital.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

21 Other liabilities

	2009 AED'000	2008 AED'000
Interest payable	**992,049**	700,122
Employees' end of service and other benefits	**130,973**	109,906
Accounts payable and other creditors	**736,492**	504,950
Clearing payables	**606**	271,194
Deferred income	**263,881**	127,202
Acceptances	**4,631,510**	887,669
Others	**985,154**	1,134,314
	7,740,665	3,735,357

Acceptances arise when the Bank guarantees payments against documents drawn under letters of credit.

22 Share capital

	Authorised	Issued and fully paid	
		2009	2008
	AED'000	AED'000	AED'000
Ordinary shares of AED 1 each	**4,810,000**	**4,810,000**	4,810,000

	2009		2008	
	Number of shares	AED'000	Number of shares	AED'000
As of January 1	**4,810,000,000**	**4,810,000**	4,000,000,000	4,000,000
Bonus shares issued during the year	**-**	**-**	810,000,000	810,000
As of December 31	**4,810,000,000**	**4,810,000**	4,810,000,000	4,810,000

During 2006, Abu Dhabi Investment Authority's holding of 64.841% of the Bank's issued and fully paid up share capital was transferred to Abu Dhabi Investment Council by Law No.16 of 2006. The shareholders of the Bank approved this share transfer at the extraordinary general assembly meeting of the Bank held on March 18, 2007.

Following the Annual General Meeting held on March 31, 2009, the Shareholders approved the distribution of proposed cash dividends of AED 481,000 thousand representing 10% of the paid up capital for the year 2008 (2007 : cash dividends of AED 400,000 thousand and bonus shares of AED 810,000 thousand representing 10% and 20.25% of the paid up capital respectively).

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

23 Statutory and other reserves

Statutory reserve

As required by Article 82 of Union Law No 10 of 1980, 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. The statutory reserve is not available for distribution.

Legal reserve

In accordance with the U.A.E. Federal Commercial Companies Law No. 8 of 1984 (as amended) and Article 84 of the Memorandum and Articles of Association of the Bank, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. The legal reserve is not available for distribution.

General reserve

In accordance with Article 84 of the Memorandum and Articles of Association of the Bank, a further percentage of net profit for the year is transferred to the general reserve based on the recommendation of the Board of Directors. The Bank may resolve to discontinue such annual transfers when the reserve equals 25% of the nominal value of the paid up share capital. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

Contingency reserve

The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

24 Employees' incentive plan shares, net

The Bank has established an Employee Long Term Incentive Plan (the "Plan") to recognise and retain good performing key management employees. Under the Plan, the employees will be granted shares of the Bank when they meet the vesting conditions. These shares were acquired from the stock market by the Bank at the prevailing market price on the acquisition dates. The fair value of the granted shares at the grant date was AED 38,131 thousand, which is recognised in the consolidated income statement on a straight line basis over a 3 years vesting period. These shares are held by ACB LTIP (IOM) Limited, a consolidated subsidiary, until vesting conditions are met. The Bank's Nomination/Remuneration and HR Committee has determined and approved the shares granted to key management employees based on the Bank's key performance indicators and with respect to the annual salary of each employee. Description of the Plan is as follows:

Date of the grant – January 1, 2008

Number of shares granted – 14,346,260

Vesting conditions – Three years' service from the grant date or meeting special conditions during the vesting period (death, disability, retirement or termination)

The movement of plan shares is as follows

	2009	2008
Shares outstanding at January 1	**14,346,260**	-
Shares granted during the year	**-**	14,346,260
Exercised during the year	**(1,172,932)**	-
Outstanding at December 31	**13,173,328**	14,346,260
Exercisable at December 31	**-**	-

	2009	2008
	AED'000	AED'000
Amount of "Plan" costs recognised in the statement of income	**12,270**	12,423

25 Proposed dividends

For the year ended December 31, 2009, the Board of Directors have proposed not to pay dividends on the paid up capital (2008: cash dividends of AED 481,000 thousand representing 10% of the paid up capital). This is subject to the approval of the shareholders in the Annual General Meeting.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

26 Capital notes

In February 2009, as part of the Government's strategy to respond to the global financial crisis, the Department of Finance, Government of Abu Dhabi subscribed for ADCB's Tier I regulatory capital notes with a principal amount of AED 4 billion (the "Notes"), along with such capital notes from other major commercial banks in Abu Dhabi.

The Notes are non-voting, non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Issuer subject to certain conditions. The Notes are direct, unsecured, subordinated obligations of the Bank and rank pari passu without any preference among themselves and the rights and claims of the Note holders will be subordinated to the claims of Senior Creditors. The Notes bear interest at the rate of 6% per annum payable semi-annually until February 2014, and a floating interest rate of 6 month EIBOR plus 2.3% per annum thereafter. However the Bank may at its sole discretion elect not to make a coupon payment. The Note holders do not have a right to claim the coupon and an election by the Bank not to service coupon is not considered an event of default. In addition, there are certain circumstances under which the Bank is prohibited from making a coupon payment on a relevant coupon payment date ("Non-Payment Event").

If the Bank makes a non-payment election or a non-payment event occurs, then the issuer will not (a) declare or pay any distribution or dividend or (b) redeem, purchase, cancel, reduce or otherwise acquire any of the share capital or any securities of the Issuer ranking pari passu with or junior to the Notes except securities, the term of which stipulate a mandatory redemption or conversion into equity, in each case unless or until two consecutive coupon payments have been paid in full.

27 Interest income

	2009	2008
	AED'000	AED'000
Loans and advances to banks	**139,828**	608,279
Loans and advances to customers	**6,596,749**	5,194,926
Investment securities	**161,246**	142,705
	6,897,823	5,945,910

28 Interest expense

	2009	2008
	AED'000	AED'000
Deposits from banks	**215,396**	279,612
Deposits from customers	**2,468,462**	1,820,881
Debt securities issued and subordinated liabilities	**476,722**	1,168,835
Interest on securities and notes	**356,323**	168,106
	3,516,903	3,437,434

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

29 Net fees and commission income

	2009 AED'000	2008 AED'000
Fees and commission income		
Retail banking fees	**456,608**	462,649
Corporate banking fees	**382,267**	320,468
Investment banking fees	**86,575**	170,141
Brokerage fees	**18,436**	31,109
Fees from trust and other fiduciary activities	**67,246**	52,589
Other fees	**40,660**	17,579
Total fees and commission income	**1,051,792**	1,054,535
Fees and commission expenses	**(66,168)**	(72,441)
Net fees and commission income	**985,624**	982,094

30 Net gains from dealing in foreign currencies

Net gains from dealing in foreign currencies include net trading income, gains and losses from spot and forward contracts, options, futures, and exchange differences arising on translation of monetary foreign currency assets and liabilities of the Bank.

31 Net gain from trading and investment securities

	2009 AED'000	2008 AED'000
Net gain /(loss) from trading securities	**7,497**	(10,687)
Net gain from sale of available for sale investments	**64,081**	89,252
	71,578	78,565

32 Impairment allowances

	2009 AED'000	2008 AED'000
Impairment allowance on doubtful loans and advances, net of recoveries (Note 9)	**2,968,315**	758,440
Impairment allowance on investment securities (Note 11)	**540,109**	296,070
Impairment allowance on credit default swaps (Note 37)	**244,550**	443,637
	3,752,974	1,498,147

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

33 Earnings per share

Basic

Basic earnings per share is calculated by dividing the net profit for the year attributable to the equity holders of the Bank by the weighted average number of shares outstanding during the year.

Ordinary shares that will be issued upon the conversion of Mandatory Convertible Securities (MCS) are included in the calculation of basic earnings per share.

	2009	2008
Net (loss)/profit for the year attributable to the equity holders of the Bank (AED'000)	**(559,448)**	1,236,592
Add: Interest on MCS for the year	**153,296**	168,106
Less: Coupons paid on capital notes (AED'000)	**(120,000)**	-
Net adjusted (loss)/profit for the year attributable to the equity holders of the Bank (AED'000) (a)	**(526,152)**	1,404,698
Weighted average number of shares in issue throughout the year (000's)	**4,810,000**	4,810,000
Add: Weighted average number of shares resulting from conversion of MCS (000's)	**785,597**	531,444
Less: Weighted average number of shares resulting from Employees' incentive share plan (000's)	**(13,564)**	(1,018)
Weighted average number of potential equity shares in issue during the year (000's) (b)	**5,582,033**	5,340,426
Basic (loss)/earnings per share (AED) (a)/(b)	**(0.09)**	0.26

34 Taxation

Taxation resulting from Indian branches' operations and overseas subsidiaries is calculated as per the taxation laws applicable in India and respective overseas subsidiaries.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

35 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flow comprise the following statement of financial position amounts:

	2009 **AED'000**	2008 AED'000
Cash and balances with Central Banks	**4,139,015**	3,911,009
Deposits and balances due from banks	**18,348,988**	17,528,422
Due to banks	**(4,738,201)**	(6,905,263)
	17,749,802	14,534,168
Less: Deposits and balances due from banks and cash and balances with Central Banks – maturity more than 3 months	**(919,535)**	(488,168)
Add: Due to banks – maturity more than 3 months	**2,543,652**	1,098,109
	19,373,919	15,144,109

36 Related party transactions

The Bank enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

The related parties balances included in the consolidated statement of financial position are as follows:

	2009 **AED'000**	2008 AED'000
Loans and advances :		
To Directors	**30,296**	116,697
To Key Managers	**30,776**	36,018
	61,072	152,715
Customers' deposits :		
From Directors	**297,470**	14,291
From Major Shareholders	**2,368,396**	6,611,400
From Key Managers	**16,939**	8,345
	2,682,805	6,634,036
Mandatory convertible securities :		
From Major Shareholders	**800,000**	800,000

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

36 Related party transactions (continued)

	2009 AED'000	2008 AED'000
Investments in funds managed by the Bank – at fair values:		
Available for sale investments	**-**	71,283
Irrevocable commitments and contingencies:		
To Directors	**6,064**	62,276

Significant transactions with related parties during the year are as follows:

	2009 AED'000	2008 AED'000
Interest, fees and commission income:		
- Directors	**410**	1,702
- Key Managers	**1,650**	588
- Trust activities	**60,068**	126,376
	62,128	128,666
Interest expense:		
- Directors	**17,451**	229
- Major Shareholders	**31,496**	66,729
- Key Managers	**472**	84
	49,419	67,042

Remuneration of key management employees during the year are as follows:

	2009 AED'000	2008 AED'000
Short term benefits	**33,260**	45,925
Board of Directors' Remuneration	**-**	4,750
	33,260	50,675

Remuneration of the Board of Directors is accrued and paid as an appropriation from the net profit of the year in accordance with the Federal Law No. 8 applicable to Commercial Companies operating in the U.A.E. The number of key management employees as at December 31, 2009 is 10 (2008: 16 employees).

37 Commitments and contingent liabilities

The Bank had the following commitments and contingent liabilities at December 31:

	2009 AED'000	2008 AED'000
Commitments on behalf of customers		
Letters of credit	**4,107,386**	8,682,852
Guarantees	**16,077,519**	15,989,632
Commitments to extend credit – Revocable	**4,791,152**	4,278,420
Commitments to extend credit – Irrevocable	**18,820,730**	18,324,032
Credit default swaps	**2,007,017**	2,395,094
	45,803,804	49,670,030
Others		
Commitments for future capital expenditure	**190,920**	505,590
Commitments to invest in investment securities	**245,409**	119,579
	46,240,133	50,295,199

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, and guarantees which are designed to meet the requirements of the Bank's customers.

Commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. These contracts would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at floating rates.

Commitments and contingent liabilities, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. The Bank's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to the Bank's normal credit approval processes.

Credit default swap means a security with a risk level and pricing level based on the likelihood of credit default by one or more underlying security issuers. Credit default contracts include credit default swaps, credit default index contracts, credit default options and credit default basket options. Credit default contracts are also used as part of the mechanism behind many collateralized debt obligations (CDOs); in these cases, the contracts may have unique covenants that exclude company events, such as a debt restructuring as a "credit event".

37 Commitments and contingent liabilities (continued)

Credit-related commitments (continued)

The Bank's gross exposure and net of provision exposure in credit default swaps amounted to AED 2,222,454 thousand and 2,007,017 thousand respectively (2008 gross exposure and net of provision exposure – AED 2,663,214 thousand and AED 2,395,094 thousand respectively). During the year, an amount of AED 244,550 thousand (Note 32) has been provided (2008 – AED 443,637 thousand) towards expected calls against impaired credit default swaps based on the independent advisor report and recommendations as discussed in Note 11.

38 Business segments

The Bank has adopted IFRS 8 Operating Segments with effect from January 1, 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Bank that are regularly reviewed by the Chief Operating Decision Maker in order to allocate resources to the segment and to assess its performance. In contrast, the predecessor Standard (IAS 14 Segmental Reporting) required an entity to identify two set of segments that is business and geographical segment. As a result, following the adoption of IFRS 8, the identification of the Bank's reportable segment has changed.

In prior years, segment information reported externally was analysed on the basis of commercial banking and investment banking. However, information reported to the Management Executive Committee of the Bank as the Chief Operating Decision Maker of the Bank, for the purpose of resource allocation and assessment of performance is more specifically focused on the business segments of the Bank. The business segments as reported under IFRS 8 are wholesale banking, consumer banking and investment and treasury banking. Assets, liabilities and performance information that are not allocated to segments are presented in the following table as corporate support.

Information regarding these segments is presented below. Amounts reported for the prior year have been redesignated to conform to the requirements of IFRS 8.

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

38 Business segments (continued)

The following is an analysis of the Bank's revenue and results by operating segment for the year 2009:

	Consumer Banking AED' 000	Wholesale Banking AED' 000	Investments and Treasury AED' 000	Corporate Support AED' 000	Total AED' 000
Net interest income after distribution to depositors	**2,149,565**	**1,578,971**	**(483,119)**	**30,726**	**3,276,143**
Non-interest income	**506,823**	**563,144**	**171,913**	**41,621**	**1,283,501**
Share of profit of associate	**8,824**	**214,338**	**-**	**-**	**223,162**
Provision for impairment of loans and advances	**(961,223)**	**(2,007,092)**	**-**	**-**	**(2,968,315)**
Impairment of funded and unfunded investments	**(147,907)**	**-**	**(636,752)**	**-**	**(784,659)**
Depreciation and amortization	**(40,441)**	**(2,762)**	**(5,414)**	**(40,466)**	**(89,083)**
Other operating expenses	**(614,832)**	**(233,774)**	**(74,213)**	**(527,498)**	**(1,450,317)**
Net profit before taxation	**900,809**	**112,825**	**(1,027,585)**	**(495,617)**	**(509,568)**
Taxation	**-**	**(3,231)**	**-**	**-**	**(3,231)**
Net profit after taxation	**900,809**	**109,594**	**(1,027,585)**	**(495,617)**	**(512,799)**
Capital expenditure	**-**	**-**	**-**	**311,096**	**311,096**
As at December 31, 2009					
Segment assets	**59,106,435**	**68,474,440**	**31,180,835**	**1,447,068**	**160,208,778**
Segment liabilities	**23,741,334**	**34,413,534**	**82,679,810**	**283,981**	**141,118,659**
As at December 31, 2008					
Segment assets	53,690,122	57,907,721	35,654,328	1,178,298	148,430,469
Segment liabilities	15,003,698	20,328,181	96,229,340	954,098	132,515,317

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

38 Business segments (continued)

The following is an analysis of the Bank's revenue and results by operating segment for the year 2008:

	Consumer Banking AED' 000	Wholesale Banking AED' 000	Investments and Treasury AED' 000	Corporate Support AED' 000	Total AED' 000
Net interest income after distribution to depositors	1,488,362	1,024,903	(73,365)	40,711	2,480,611
Non-interest income	513,939	683,464	352,090	188,638	1,738,131
Share of profit of associate	-	171,557	-	-	171,557
Provision for impairment of loans & advances	(483,432)	(275,008)	-	-	(758,440)
Impairment of funded and unfunded investments	-	-	(739,707)	-	(739,707)
Depreciation and amortisation	(22,185)	(2,121)	(4,415)	(28,609)	(57,330)
Other operating expenses	(617,655)	(260,733)	(53,428)	(536,015)	(1,467,831)
Net profit before taxation	879,029	1,342,062	(518,825)	(335,275)	1,366,991
Taxation	-	(8,518)	-	-	(8,518)
Net profit after taxation	879,029	1,333,544	(518,825)	(335,275)	1,358,473
Capital expenditure	-	-	-	152,816	152,816

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

38 Business segments (continued)

Geographical information

The Bank operates in two principal geographic areas that is Domestic and International. The United Arab Emirates is designated as Domestic area which represents the operations of the Bank that originates from the U.A.E. Branches and subsidiaries; and International area represents the operations of the Bank that originates from its branches in India and through its subsidiaries and associate outside U.A.E. The Bank's operations and information about its segment assets (non-current assets excluding investments in associates and other financial instruments) by geographical location are detailed as follows:

	Domestic		International	
	2009 AED'000	2008 AED'000	**2009 AED'000**	2008 AED'000
Income				
Net interest income after distribution to depositors	**3,389,820**	2,585,566	**(113,677)**	(104,955)
Non-interest income	**1,281,615**	1,736,077	**1,886**	2,054
Share of profit of associate	**8,824**	-	**214,338**	**171,557**

	As at December 31		As at December 31	
	2009 AED'000	2008 AED'000	**2009 AED'000**	2008 AED'000
Investment properties	**549,492**	632,492	**-**	-
Property and equipment, net	**786,736**	570,933	**4,985**	4,908

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

39 Financial instruments

39.1 Categories of financial instruments

The following tables analyse the Bank's financial assets and financial liabilities in accordance with categories of financial instruments in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown separately.

December 31, 2009	**Held-for-trading AED'000**	**Hedging derivatives AED'000**	**Available-for-sale AED'000**	**Loans and receivables AED'000**	**Amortised cost AED'000**	**Total AED'000**
Assets						
Cash and balances with Central Banks	**-**	**-**	**-**	**-**	**4,139,015**	**4,139,015**
Deposits and balances due from banks	**-**	**-**	**-**	**-**	**18,348,988**	**18,348,988**
Trading securities	**86,561**	**-**	**-**		**-**	**86,561**
Loans and advances, net	**-**	**-**	**-**	**116,610,292**	**-**	**116,610,292**
Derivative financial instruments	**4,495,260**	**457,759**	**-**	**-**	**-**	**4,953,019**
Investment securities	**-**		**4,372,744**	**-**	**-**	**4,372,744**
Total assets	**4,581,821**	**457,759**	**4,372,744**	**116,610,292**	**22,488,003**	**148,510,619**
Liabilities						
Due to banks	**-**	**-**	**-**	**-**	**4,738,201**	**4,738,201**
Customers' deposits	**-**	**-**	**-**	**-**	**86,299,957**	**86,299,957**
Mandatory convertible securities – liability component	**-**	**-**	**-**	**-**	**109,049**	**109,049**
Short and medium term borrowings	**-**	**-**	**-**	**-**	**28,921,804**	**28,921,804**
Derivative financial instruments	**4,458,618**	**230,871**	**-**	**-**	**-**	**4,689,489**
Long term borrowings	**-**	**-**	**-**	**-**	**8,619,494**	**8,619,494**
Total liabilities	**4,458,618**	**230,871**	-	-	**128,688,505**	**133,377,994**

December 31, 2008	Held-for-trading AED'000	Hedging derivatives AED'000	Available-for-sale AED'000	Loans and receivables AED'000	Amortised cost AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	-	-	-	-	3,911,009	3,911,009
Deposits and balances due from banks	-	-	-	-	17,528,422	17,528,422
Loans and advances, net	-	-	-	109,081,089	-	109,081,089
Derivative financial instruments	6,202,686	414,927	-	-	-	6,617,613
Investment securities	-	-	3,422,794	-	-	3,422,794
Total assets	6,202,686	414,927	3,422,794	109,081,089	21,439,431	140,560,927
Liabilities						
Due to banks	-	-	-	-	6,905,263	6,905,263
Customers' deposits	-	-	-	-	84,360,821	84,360,821
Mandatory convertible securities – liability component	-	-	-	-	168,435	168,435
Short and medium term borrowings	-	-	-	-	28,427,189	28,427,189
Derivative financial instruments	6,238,700	540,193	-	-	-	6,778,893
Long term borrowings	-	-	-	-	2,139,359	2,139,359
Total liabilities	6,238,700	540,193	-	-	122,001,067	128,779,960

39 Financial instruments (continued)

39.2 Fair value measurements recognized in the statement of financial position

Fair value represents the amount at which an asset can be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Differences can therefore arise between book value under the historical cost method and fair value estimates.

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;

- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.
- The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the consolidated income statement, and other changes are recognised in equity.

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

- Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

39 Financial instruments (continued)

39.2 Fair value measurements recognized in the statement of financial position (continued)

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Financial assets at FVTPL			
Trading securities	**86,561**	**-**	**-**
Derivative financial insturments	**-**	**4,953,019**	**-**
Available-for-sale financial assets			
Quoted	**3,269,830**	**-**	**-**
Unquoted	**-**	**-**	**1,102,914**
Total	**3,356,391**	**4,953,019**	**1,102,914**
Financial liabilities at FVTPL			
Derivative financial instruments	**-**	**4,689,489**	**-**

40 Credit risk frame work, measurement, monitoring and policies

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

As at reporting date, 30% of the loans and advances is concentrated by 12 customers (2008 – 28% is concentrated by 12 customers).

40 Credit risk frame work, measurement, monitoring and policies (continued)

Management of credit risk

The Bank's credit risk management framework includes:

- Establishment of authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being sanctioned to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of lending and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with the risk management strategy and market trends.

The Board Risk and Credit Committee (BRCC) is responsible for sanctioning high value credits and the Credit Policy Committee is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

In addition, the Bank manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Regular audits of business units and the Bank's credit processes are undertaken by the Internal Audit and Compliance Division.

For details of the composition of the loans and advances portfolio refer to Note 9. Information on credit risk relating to derivative instruments is provided in Note 10.

Credit risk measurement

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data.

The rating tools are kept under review and upgraded as necessary. The Bank is in the process of implementing a new solution for calculation of probability of default through best in practice tools that are Basel II compliant.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

40 Credit risk frame work, measurement, monitoring and policies (continued)

Credit risk measurement (continued)

Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and banks, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review and are approved by the BRCC, when considered necessary. These limits are set with respect to product, country and industry sector.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits.
Actual exposures against limits are monitored on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of securities for funds advances, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Cash and marketable securities
- Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

(b) Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. positive fair value of assets), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

40 Credit risk frame work, measurement, monitoring and policies (continued)

Risk limit control and mitigation policies (continued)

(b) Derivatives (continued)

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks arising from the Bank's market transactions on any single day.

(c) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of statement of financial position assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short year, as it is affected by each transaction subject to the arrangement.

	2009			2008		
	Carrying value AED'000	**Off balance sheet items AED'000**	**Maximum credit exposure AED'000**	Carrying value AED'000	Off balance sheet items AED'000	Maximum credit exposure AED'000
Deposits and balances due from banks	**18,348,988**	**-**	**18,348,988**	17,528,422	-	17,528,422
Trading securities	**86,561**	**-**	**86,561**	-	-	-
Loans and advances, net	**116,610,292**	**-**	**116,115,142**	109,081,089	-	108,535,689
Investment securities	**4,372,744**	**245,409**	**4,618,153**	3,422,794	119,579	3,452,375
Derivative financial instruments	**4,953,019**	**-**	**4,953,019**	6,617,613	-	6,617,613
Investments in associates	**4,582,659**	**-**	**4,582,659**	4,427,529	-	4,427,529
Other assets	**5,774,287**	**-**	**5,738,244**	2,233,680	-	2,145,527
Guarantees	**-**	**16,077,519**	**15,763,100**	-	15,989,632	15,638,688
Letters of credit	**-**	**4,107,386**	**4,074,210**	-	8,682,852	8,664,919
Irrevocable commitments to extend credit	**-**	**18,820,730**	**18,820,730**	-	18,324,032	18,324,032
Credit default swaps	**-**	**2,007,017**	**2,007,017**	-	2,395,094	2,395,094
Total	**154,728,550**	**41,258,061**	**195,107,823**	143,311,127	45,511,189	187,729,888

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

41 Concentration of assets, liabilities and off statement of financial position items

The distribution of assets, liabilities and off statement of financial position items by geographic region and industry sector during the year was as follows:

41.1 Geographic region

December 31, 2009	Domestic (U.A.E.) AED'000	Other GCC countries AED'000	Other Arab countries AED'000	Asia AED'000	Europe AED'000	U.S.A. AED'000	Rest of the world AED'000	Total AED'000
Assets								
Cash and balances with Central Banks	4,113,522	-	-	25,493	-	-	-	4,139,015
Deposits and balances due from banks	5,777,339	4,567,211	737	1,194,048	6,558,152	251,501	-	18,348,988
Trading securities	6,962	67,125	12,474	-	-	-	-	86,561
Loans and advances, net	107,340,366	5,152,465	575,651	1,708,048	529,248	97,670	1,206,844	116,610,292
Derivative financial instruments	3,555,253	52,069	6,870	6,515	862,809	415,776	53,727	4,953,019
Investment securities	3,211,120	381,056	-	401,622	50,339	328,607	-	4,372,744
Investments in associates	107,875	-	-	4,474,784	-	-	-	4,582,659
Investment properties	549,492	-	-	-	-	-	-	549,492
Other assets	5,727,249	-	-	47,038	-	-	-	5,774,287
Property and equipment, net	786,736	-	-	4,985	-	-	-	791,721
Total assets	131,175,914	10,219,926	595,732	7,862,533	8,000,548	1,093,554	1,260,571	160,208,778
Liabilities								
Due to banks	2,941,798	151,509	14,886	48,817	1,473,170	107,632	389	4,738,201
Customers' deposits	77,241,755	3,757,407	82,264	557,087	3,221,931	278,681	1,160,832	86,299,957
Mandatory convertible securities – liability component	109,049	-	-	-	-	-	-	109,049
Short and medium term borrowings	-	-	-	-	25,212,074	3,709,730	-	28,921,804
Derivative financial instruments	617,631	9,367	264	53,592	2,575,035	1,253,800	179,800	4,689,489
Long term borrowings	6,617,456	-	-	-	2,002,038	-	-	8,619,494
Other liabilities	7,634,395	-	-	106,270	-	-	-	7,740,665
Total liabilities	95,162,084	3,918,283	97,414	765,766	34,484,248	5,349,843	1,341,021	141,118,659
Equity	19,420,772	-	-	(330,653)	-	-	-	19,090,119
	114,582,856	3,918,283	97,414	435,113	34,484,248	5,349,843	1,341,021	160,208,778
Off-balance sheet items	40,231,082	676,067	65,983	1,798,840	1,205,354	1,551,563	711,244	46,240,133

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

41 Concentration of assets, liabilities and off statement of financial position items (continued)

41.1 Geographic region (continued)

December 31, 2008	Domestic (U.A.E.)	Other GCC countries	Other Arab countries	Asia	Europe	U.S.A.	Rest of the world	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets								
Cash and balances with Central Banks	3,890,270	-	-	20,739	-	-	-	3,911,009
Deposits and balances due from banks	6,929,539	1,683,290	73	516,098	8,186,928	212,494	-	17,528,422
Loans and advances, net	100,236,515	4,914,136	581,992	1,545,176	841,988	2,983	958,299	109,081,089
Derivative financial instruments	3,399,090	51,059	38,887	606,998	1,651,459	870,120	-	6,617,613
Investment securities	2,522,231	107,839	-	293,134	56,573	443,017	-	3,422,794
Investments in associates	100,000	-	-	4,327,529	-	-	-	4,427,529
Investment properties	632,492	-	-	-	-	-	-	632,492
Other assets	2,190,061	-	-	24,408	19,211	-	-	2,233,680
Property and equipment, net	570,933	-	-	4,908	-	-	-	575,841
Total assets	120,471,131	6,756,324	620,952	7,338,990	10,756,159	1,528,614	958,299	148,430,469
Liabilities								
Due to banks	4,435,732	1,240,225	148,804	214,837	865,636	-	29	6,905,263
Customers' deposits	73,881,180	3,863,034	149,025	124,802	1,345,390	9,801	4,987,589	84,360,821
Mandatory convertible securities – liability component	168,435	-	-	-	-	-	-	168,435
Short and medium term borrowings	-	-	-	-	28,427,189	-	-	28,427,189
Derivative financial instruments	(413,211)	467,564	132	630,108	4,092,466	2,001,834	-	6,778,893
Long term borrowings	-	-	-	-	2,139,359	-	-	2,139,359
Other liabilities	3,674,333	-	-	61,024	-	-	-	3,735,357
Total liabilities	81,746,469	5,570,823	297,961	1,030,771	36,870,040	2,011,635	4,987,618	132,515,317
Equity	16,236,229	-	-	(321,077)	-	-	-	15,915,152
	97,982,698	5,570,823	297,961	709,694	36,870,040	2,011,635	4,987,618	148,430,469
Off-balance sheet items	39,370,943	522,572	55,551	1,924,896	1,693,002	2,151,792	4,576,443	50,295,199

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

41 Concentration of assets, liabilities and off statement of financial position items (continued)

41.2 Industry sector

December 31, 2009	Commercial and business AED'000	Personal AED'000	Public sector AED'000	Government AED'000	Banks and financial institutions AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	470,374	-	-	-	3,668,641	**4,139,015**
Deposits and balances due from banks	-	-	-	-	18,348,988	**18,348,988**
Trading securities	68,652	-		-	17,909	**86,561**
Loans and advances, net	42,768,040	42,232,847	15,744,696	2,800,148	13,064,561	**116,610,292**
Derivative financial instruments	1,320,305	15,478	-	1,014,166	2,603,070	**4,953,019**
Investment securities	1,142,084	-	-	1,869,105	1,361,555	**4,372,744**
Investments in associates	-	-	-	-	4,582,659	**4,582,659**
Investment properties	549,492	-	-	-	-	**549,492**
Other assets	5,774,287	-	-	-	-	**5,774,287**
Property and equipment, net	791,721	-	-	-	-	**791,721**
Total assets	**52,884,955**	**42,248,325**	**15,744,696**	**5,683,419**	**43,647,383**	**160,208,778**
Liabilities						
Due to banks	-	-	-	-	4,738,201	**4,738,201**
Customers' deposits	27,069,481	19,538,184	6,657,183	22,811,362	10,223,747	**86,299,957**
Mandatory convertible securities – liability component	109,049	-	-	-	-	**109,049**
Short and medium term Borrowings	-	-	-	-	28,921,804	**28,921,804**
Derivative financial instruments	262,216	45,642	-	1,426	4,380,205	**4,689,489**
Long term borrowings	-	-	-	6,617,456	2,002,038	**8,619,494**
Other liabilities	7,740,665	-	-	-	-	**7,740,665**
Total liabilities	**35,181,411**	**19,583,826**	**6,657,183**	**29,430,244**	**50,265,995**	**141,118,659**
Equity	**19,090,119**	**-**	**-**	**-**	**-**	**19,090,119**
	54,271,530	**19,583,826**	**6,657,183**	**29,430,244**	**50,265,995**	**160,208,778**
Off-balance sheet items	**35,835,749**	**4,697,473**	**1,705,240**	**436,710**	**3,564,961**	**46,240,133**

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

41 Concentration of assets, liabilities and off statement of financial position items (continued)

41.2 Industry sector (continued)

December 31, 2008	Commercial and business AED'000	Personal AED'000	Public sector AED'000	Government AED'000	Banks and financial institutions AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	509,628	-	-	-	3,401,381	3,911,009
Deposits and balances due from banks	-	-	-	-	17,528,422	17,528,422
Loans and advances, net	47,077,494	36,865,896	9,541,626	2,055,677	13,540,396	109,081,089
Derivative financial instruments	1,924,574	16,966	-	2,005,098	2,670,975	6,617,613
Investment securities	1,073,710	-	-	459,668	1,889,416	3,422,794
Investments in associates	-	-	100,000	-	4,327,529	4,427,529
Investment properties	632,492	-	-	-	-	632,492
Other assets	2,233,680	-	-	-	-	2,233,680
Property and equipment, net	575,841	-	-	-	-	575,841
Total assets	54,027,419	36,882,862	9,641,626	4,520,443	43,358,119	148,430,469
Liabilities						
Due to banks	-	-	-	-	6,905,263	6,905,263
Customers' deposits	17,984,055	14,522,940	14,441,746	29,082,380	8,329,700	84,360,821
Mandatory convertible securities – liability component	168,435	-	-	-	-	168,435
Short and medium term borrowings	-	-	-	-	28,427,189	28,427,189
Derivative financial instruments	594,091	17,976	-	4,535	6,162,291	6,778,893
Long term borrowings	-	-	-	-	2,139,359	2,139,359
Other liabilities	3,735,357	-	-	-	-	3,735,357
Total liabilities	22,481,938	14,540,916	14,441,746	29,086,915	51,963,802	132,515,317
Equity	15,115,152	-	-	800,000	-	15,915,152
	37,597,090	14,540,916	14,441,746	29,886,915	51,963,802	148,430,469
Off-balance sheet items	35,138,664	5,071,658	1,398,145	61,978	8,624,754	50,295,199

**Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)**

42 Interest rate risk framework, measurement and monitoring

Financial assets and liabilities exposed to cash flow interest rate risk are financial assets and financial liabilities with either a fixed or a floating contractual rate of interest. A significant portion of the Bank's loans and advances, due from banks, investment securities, customer deposits, due to banks, short and medium term borrowings, capital notes, long term borrowings and mandatory convertible securities fall under this category.

Financial assets that are not subject to any fair value or cash flow interest rate risk mainly comprise of investments in equity instruments.

The effective interest rate (effective yield) of a monetary financial instrument is the rate of interest that, when used in a present value calculation, would result in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortized cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The off balance sheet gap represents the net notional amounts of the off balance sheet financial instruments, such as interest rate swaps which are used to manage the interest rate risk.

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Bank manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Bank's Treasury division, which uses linear and non-linear financial instruments to manage the overall position arising from the Bank's interest bearing financial instruments.

The Bank uses financial simulation tools to periodically measure and monitor interest rate sensitivity. The results are analyzed and monitored by the Asset and Liability Committee (ALCO). Since most of the Bank's financial assets and liabilities accrue a floating rate of interest, such as deposits and loans generally repricing simultaneously, this provides a natural hedge which reduces exposure to changing levels of interest rates. Moreover, a majority of the Bank's assets and liabilities reprice with at least a yearly frequency or more frequently, thereby further limiting interest rate risk.

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

42 Interest rate risk framework, measurement and monitoring (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2009 was as follows:

December 31, 2009	Effective rate	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets								
Cash and balances with Central Banks	-	-	-	-	-	-	4,139,015	4,139,015
Deposits and balances due from banks	0.81%	14,086,066	4,052,645	-	-	16,473	193,804	18,348,988
Trading securities	-	-	-	-	-	-	86,561	86,561
Loans and advances, net	5.72%	95,198,570	11,535,059	780,765	2,638,034	11,253,007	(4,795,143)	116,610,292
Derivative financial instruments	-	2,259,146	453,260	114,830	832,630	835,395	457,758	4,953,019
Investment securities	5.50%	929,819	643,820	2,130,436	172,742	14,942	480,985	4,372,744
Investments in associates	-	-	-	-	-	-	4,582,659	4,582,659
Investment properties	-	-	-	-	-	-	549,492	549,492
Other assets	-	-	-	-	-	-	5,774,287	5,774,287
Property and equipment, net	-	-	-	-	-	-	791,721	791,721
Total assets		112,473,601	16,684,784	3,026,031	3,643,406	12,119,817	12,261,139	160,208,778
Liabilities								
Due to banks	1.58%	1,663,288	1,069,025	1,726,601	30,111	49,129	200,047	4,738,201
Customers' deposits	3.11%	67,199,403	12,222,469	6,491,259	329,060	1,901	55,865	86,299,957
Mandatory convertible securities – liability component	2.08%	109,049	-	-	-	-	-	109,049
Short and medium term borrowings	2.00%	19,911,778	2,386,688	2,950,338	-	3,673,000	-	28,921,804
Derivative financial instruments	-	2,507,784	237,339	129,234	756,359	827,903	230,870	4,689,489
Long term borrowings	4,12%	1,328,891	-	-	-	7,290,603	-	8,619,494
Other liabilities	-	-	-	-	-	-	7,740,665	7,740,665
Equity	-	-	-	-	-	-	19,090,119	19,090,119
Total liabilities and equity		92,720,193	15,915,521	11,297,432	1,115,530	11,842,536	27,317,566	160,208,778
On-balance sheet gap		19,753,408	769,263	(8,271,401)	2,527,876	277,281	(15,056,427)	-
Off-balance sheet gap		(5,166,258)	(563,528)	(1,359,863)	6,735,983	353,666	-	
Total interest rate sensitivity gap		14,587,150	205,735	(9,631,264)	9,263,859	630,947	(15,056,427)	-
Cumulative interest rate sensitivity gap		14,587,150	14,792,885	5,161,621	14,425,480	15,056,427	-	-

Included in investment securities are interest bearing amounts of AED 313,784 thousand relating to the Bank's overseas branches with effective rate of 7.88%

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

42 Interest rate risk framework, measurement and monitoring (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2008 was as follows:

	Effective rate	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets								
Cash and balances with Central Banks	0.94%	200,000	50,000	-	-	-	3,661,009	3,911,009
Deposits and balances due from banks	2.70%	15,455,037	36,730	8,500	-	23,189	2,004,966	17,528,422
Loans and advances, net	5.64%	90,927,860	17,097,601	292,088	2,753,551	-	(1,990,011)	109,081,089
Derivative financial instruments	-	3,756,419	942,178	540,499	750,202	213,388	414,927	6,617,613
Investment securities	4.23%	1,973,508	493,577	13,158	428,376	-	514,175	3,422,794
Investments in associates	-	-	-	-	-	-	4,427,529	4,427,529
Investment properties	-	-	-	-	-	-	632,492	632,492
Other assets	-	-	-	-	-	-	2,233,680	2,233,680
Property and equipment, net	-	-	-	-	-	-	575,841	575,841
Total assets		112,312,824	18,620,086	854,245	3,932,129	236,577	12,474,608	148,430,469
Liabilities and equity								
Due to banks	3.07%	5,807,155	760,932	23,959	241,477	71,740	-	6,905,263
Customers' deposits	2.79%	71,669,081	7,962,073	4,453,128	273,784	2,755	-	84,360,821
Mandatory convertible securities – liability component	7.80%	168,435	-	-	-	-	-	168,435
Short and medium term borrowings	3.66%	21,501,768	3,021,136	3,497,530	-	-	406,755	28,427,189
Derivative financial instruments	-	4,770,139	693,590	40,871	659,553	199,813	414,927	6,778,893
Long term borrowings	3.66%	2,131,187	-	-	-	-	8,172	2,139,359
Other liabilities	-	-	-	-	-	-	3,735,357	3,735,357
Equity	-	-	-	-	-	-	15,915,152	15,915,152
Total liabilities and equity		106,047,765	12,437,731	8,015,488	1,174,814	274,308	20,480,363	148,430,469
On-balance sheet gap		6,265,059	6,182,355	(7,161,243)	2,757,315	(37,731)	(8,005,755)	-
Off-balance sheet gap		(4,183,797)	(1,231,461)	-	4,274,302	1,140,956	-	-
Total interest rate sensitivity gap		2,081,262	4,950,894	(7,161,243)	7,031,617	1,103,225	(8,005,755)	-
Cumulative interest rate sensitivity gap		2,081,262	7,032,156	(129,087)	6,902,530	8,005,755	-	-

Included in investment securities are interest bearing amounts of AED 281,509 thousand relating to the Bank's overseas branches with effective rate of 7.54%.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

43 Liquidity risk framework, measurement and monitoring

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the Bank's management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

Liquidity risk management process

The Assets and Liabilities Committee (ALCO) of the Bank sets and monitors liquidity ratios and regularly revises and updates the Bank's liquidity management policies to ensure that the Bank is in a position to meet its obligations as they fall due.

The Bank's liquidity management process, as carried out within the Bank and monitored by Bank's Treasury, includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring statement of financial position liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Bank has set an internal ceiling on the Advances to Stable Resources that should not be higher than 1:1 between:

- the amount of loans and advances together with the amount of inter bank placements with a remaining life of more than three months and;
- the amount of stable resource comprising of "free own funds", a remaining life of more than six months, "stable customer deposits", and standby liquidity facilities.

The above definitions are in line with the Central Bank of United Arab Emirates definitions of the Advances to Deposits Ratio.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

43 Liquidity risk framework, measurement and monitoring (continued)

Liquidity risk management process (continued)

The Bank also monitors composition of funding sources at granular level and has set triggers for avoiding concentration of funding sources. The concentration of funding sources is monitored as percentage of the total statement of financial position. Some of the ratios for monitoring are as follows:

- Euro Commercial Paper to Total Liabilities
- Wholesale Funds to Total Liabilities
- Money Market Deposits to Total Liabilities
- Core Funds to Total Liabilities
- Non-Core Funds to Total Liabilities

The Bank also has unsecured standby facilities of USD 25,000 thousand (2008 – USD 175,000 thousand) to fund its liquidity needs (Note 19).

Funding approach

ADCB pursues a diversified funding construct including, Retail Funding, liabilities for Corporate and financial institutions as well as professional counterparts and capital markets. These sources of liquidity are regularly monitored by the Asset and Liability Committee to ensure sustainability and diversification by provider, product and term.

Bank identifies the core component of Cash or On-demand accounts like savings and current account and treats these as sources of long term retail funding.

Long term capital market issues, secured and un-secured funding lines from institutional investor also form part of funding sources.

Central bank facilities, repo facilities are also part of the funding source available which help to diversify the funding source available to the bank.

The table below summarizes the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the end of the reporting period date to the contractual maturity date and do not take into account the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

43 Liquidity risk framework, measurement and monitoring (continued)

The maturity profile of the assets and liabilities at December 31, 2009 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	4,139,015	-	-	-	-	4,139,015
Deposits and balances due from banks	12,043,140	379,645	900,000	1,336,730	3,689,473	18,348,988
Trading securities	86,561	-	-	-	-	86,561
Loans and advances, net	19,689,111	4,556,118	5,537,117	20,070,926	66,757,020	116,610,292
Derivative financial instruments	322,859	49,098	92,131	788,017	3,700,914	4,953,019
Investment securities	884,482	48,251	79,596	207,539	3,152,876	4,372,744
Investments in associates	-	-	-	-	4,582,659	4,582,659
Investment properties	-	-	-	-	549,492	549,492
Other assets	5,774,287	-	-	-	-	5,774,287
Property and equipment, net	-	-	-	-	791,721	791,721
Total assets	42,939,455	5,033,112	6,608,844	22,403,212	83,224,155	160,208,778
Liabilities and Equity						
Due to banks	1,863,336	303,204	992,101	1,089,671	489,889	4,738,201
Customers' deposits	65,245,527	12,701,226	6,783,316	1,567,987	1,901	86,299,957
Mandatory convertible securities – liability component	-	-	-	109,049	-	109,049
Short and medium term borrowings	606,870	4,129,706	4,194,847	10,247,378	9,743,003	28,921,804
Derivative financial instruments	352,955	48,367	147,995	426,165	3,714,007	4,689,489
Long term borrowings	-	-	-	-	8,619,494	8,619,494
Other liabilities	7,740,665	-	-	-	-	7,740,665
Equity	-	-	-	-	19,090,119	19,090,119
Total liabilities and equity	75,809,353	17,182,503	12,118,259	13,440,250	41,658,413	160,208,778
Liquidity gap	(32,869,898)	(12,149,391)	(5,509,415)	8,962,962	41,565,742	-
Cumulative liquidity gap	(32,869,898)	(45,019,289)	(50,528,704)	(41,565,742)	-	-

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

43 Liquidity risk framework, measurement and monitoring (continued)

The maturity profile of the assets and liabilities at December 31, 2008 was as follows:

	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Total AED'000
Assets						
Cash and balances with Central Banks	3,861,009	50,000	-	-	-	3,911,009
Deposits and balances due from banks	17,090,255	36,730	8,500	369,749	23,188	17,528,422
Loans and advances, net	33,942,291	1,410,958	10,754,132	15,701,487	47,272,221	109,081,089
Derivative financial instruments	686,521	118,498	86,797	2,365,662	3,360,135	6,617,613
Investment securities	183,728	48,653	306,113	717,318	2,166,982	3,422,794
Investments in associates	-	-	-	-	4,427,529	4,427,529
Investment properties	-	-	-	-	632,492	632,492
Other assets	2,233,680	-	-	-	-	2,233,680
Property and equipment, net	-	-	-	-	575,841	575,841
Total assets	57,997,484	1,664,839	11,155,542	19,154,216	58,458,388	148,430,469
Liabilities and Equity						
Due to banks	5,807,154	435,873	23,959	241,477	396,800	6,905,263
Customers' deposits	62,468,078	8,614,566	6,205,635	3,758,753	3,313,789	84,360,821
Mandatory convertible securities – liability component	-	-	-	168,435	-	168,435
Short and medium term borrowings	1,486,825	403,286	5,405,344	12,520,218	8,611,516	28,427,189
Derivative financial instruments	866,226	123,006	60,569	2,469,145	3,259,947	6,778,893
Long term borrowings	-	-	-	-	2,139,359	2,139,359
Other liabilities	3,735,357	-	-	-	-	3,735,357
Equity	-	-	-	-	15,915,152	15,915,152
Total liabilities and equity	74,363,640	9,576,731	11,695,507	19,158,028	33,636,563	148,430,469
Liquidity gap	(16,366,156)	(7,911,892)	(539,965)	(3,812)	24,821,825	-
Cumulative liquidity gap	(16,366,156)	(24,278,048)	(24,818,013)	(24,821,825)	-	-

44 Foreign exchange risk framework, measurement and monitoring

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored on daily basis. At December 31, the Bank had the following significant net exposures denominated in foreign currencies:

	2009 AED'000 equivalent long/(short)	2008 AED'000 equivalent long/(short)
US $	**(8,685,085)**	(7,312,885)
Indian Rupee	**92,406**	73,252
Omani Riyal	**2,057**	2,057
Pound Sterling	**1,663**	2,593
Euro	**3,976**	9,382
Bahraini Dinar	**(4)**	(191)
Saudi Riyal	**3,852**	23
Japanese Yen	**(587)**	712
Australian Dollar	**14,108**	(8,329)
Swiss Franc	**3,408**	8
Malaysian Ringgit	**716,170**	4,280,870
Qatari Riyal	**(8,429)**	1,512
Others	**(79)**	(336)

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

44 Foreign exchange risk framework, measurement and monitoring (continued)

Currency concentrations as at December 31, 2009:

	AED '000	US$ '000	EUR '000	CHF '000	GBP '000	MYR '000	Other '000	Total AED'000
Assets								
Cash and balances with Central Banks	3,724,378	389,101	3	-	1	-	25,532	4,139,015
Deposits and balances due from banks	3,286,932	12,850,762	799,221	5,855	168,982	21	1,237,215	18,348,988
Trading securities	-	86,561	-	-	-	-	-	86,561
Loans and advances, net	95,088,581	18,566,447	72,737	904	125	-	2,881,498	116,610,292
Derivative financial instruments	1,220,967	2,919,174	14,886	-	744,000	-	53,992	4,953,019
Investment securities	1,411,947	2,561,793	44,774	-	-	-	354,230	4,372,744
Investments in associates	107,875	-	-	-	-	4,474,784	-	4,582,659
Investment properties	549,492	-	-	-	-	-	-	549,492
Other assets	5,413,154	221,899	20,031	31,294	-	36,397	51,512	5,774,287
Property and equipment, net	786,736	-	-	-	-	-	4,985	791,721
Total assets	111,590,062	37,595,737	951,652	38,053	913,108	4,511,202	4,608,964	160,208,778
Liabilities								
Due to banks	4,291,009	-	11,880	835	57,872	-	376,605	4,738,201
Customers' deposits	56,648,904	23,288,508	1,839,958	396,684	891,696	12	3,234,195	86,299,957
Mandatory convertible securities – liability component	109,049	-	-	-	-	-	-	109,049
Short and medium term borrowings	3,687,200	19,156,532	-	1,597,188	2,950,337	-	1,530,547	28,921,804
Derivative financial instruments	922,631	2,818,786	14,886	-	744,000	-	189,186	4,689,489
Long term borrowings	7,117,456	1,413,323	-	-	-	-	88,715	8,619,494
Other liabilities	7,629,158	-	11,050	23,643	29,560	5,160	42,094	7,740,665
Total liabilities	80,405,407	46,677,149	1,877,774	2,018,350	4,673,465	5,172	5,461,342	141,118,659
Off balance sheet items								
Letters of credit	924,257	2,401,495	426,384	21,885	7,866	-	325,499	4,107,386
Guarantees	9,532,851	4,987,417	392,150	1,678	13,678	-	1,149,745	16,077,519
Commitments to extend credit – revocable	4,791,152	-	-	-	-	-	-	4,791,152
Commitments to extend credit – irrevocable	15,444,468	3,156,044	67,943	-	-	-	152,275	18,820,730
Credit default swaps	-	2,007,017	-	-	-	-	-	2,007,017
	30,692,728	12,551,973	886,477	23,563	21,544	-	1,627,519	45,803,804
Commitments for future capital expenditure	190,920	-	-	-	-	-	-	190,920
Commitments to invest in investment securities	-	245,409	-	-	-	-	-	245,409
Total off balance sheet items	30,883,648	12,797,382	886,477	23,563	21,544	-	1,627,519	46,240,133

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

44 Foreign exchange risk framework, measurement and monitoring (continued)

Currency concentrations as at December 31, 2008:

	AED '000	US$ '000	EUR '000	CHF '000	GBP '000	MYR '000	Other '000	Total AED'000
Assets								
Cash and balances with Central Banks	3,475,617	414,395	10	-	-	-	20,987	3,911,009
Deposits and balances due from banks	4,681,545	9,881,498	2,703,500	3,740	140,144	2	117,993	17,528,422
Loans and advances, net	81,600,530	23,708,343	465,262	186,625	5,765	-	3,114,564	109,081,089
Derivative financial instruments	1,362,724	3,758,501	54,339	-	1,257,452	-	184,597	6,617,613
Investment securities	1,837,837	1,182,414	57,778	-	-	-	344,765	3,422,794
Investments in associates	100,000	-	-	-	-	4,327,529	-	4,427,529
Investment properties	632,492	-	-	-	-	-	-	632,492
Other assets	1,109,577	863,518	28,077	17,713	2,305	13,402	199,088	2,233,680
Property and equipment, net	570,933	-	-	-	-	-	4,908	575,841
Total assets	95,371,255	39,808,669	3,308,966	208,078	1,405,666	4,340,933	3,986,902	148,430,469
Liabilities								
Due to banks	2,982,590	2,897,531	607,836	-	71,892	-	345,414	6,905,263
Customers' deposits	55,127,064	25,002,964	2,682,781	38,654	167,256	12	1,342,090	84,360,821
Mandatory convertible securities – liability component	168,435	-	-	-	-	-	-	168,435
Short and medium term borrowings	5,413,000	16,690,478	1,076,738	1,550,225	2,677,158	-	1,019,590	28,427,189
Derivative financial instruments	661,161	6,117,732	-	-	-	-	-	6,778,893
Long term borrowings	500,000	1,562,373	-	-	-	-	76,986	2,139,359
Other liabilities	2,797,886	530,707	112,085	25,195	39,102	1,287	229,095	3,735,357
Total liabilities	67,650,136	52,801,785	4,479,440	1,614,074	2,955,408	1,299	3,013,175	132,515,317
Off balance sheet items								
Letters of credit	3,070,397	4,629,476	226,373	1,628	7,439	-	747,539	8,682,852
Guarantees	10,638,819	4,010,136	383,922	2,018	23,334	-	931,403	15,989,632
Commitments to extend credit – Revocable	4,278,420	-	-	-	-	-	-	4,278,420
Commitments to extend credit – Irrevocable	16,290,824	1,820,060	87,236	178	357	-	125,377	18,324,032
Credit default swaps	-	2,395,094	-	-	-	-	-	2,395,094
	34,278,460	12,854,766	697,531	3,824	31,130	-	1,804,319	49,670,030
Commitments for future capital Expenditure	505,590	-	-	-	-	-	-	505,590
Commitments to invest in investment securities	-	119,579	-	-	-	-	-	119,579
Total off balance sheet items	34,784,050	12,974,345	697,531	3,824	31,130	-	1,804,319	50,295,199

45 Market risk framework, measurement and monitoring

Market risk is the risk that the Bank's income and/or value of a financial instrument will fluctuate because of changes in market risk factors such as interest rates, foreign exchange rates, equity prices, commodities prices and options' volatilities.

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Bank is exposed to market risk with respect to its investments in marketable securities and other financial instruments like derivatives. The Bank limits market risks by maintaining a diversified portfolio and by the continuous monitoring of developments in the market. In addition, the Bank actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

Management of market risk

The Board of Directors have set risk limits based on the sensitivity analysis and notional limits which are closely monitored by the Risk Management Division, reported regularly to the Senior Management and discussed by ALCO.

The Bank's activities expose it primarily to the financial risk of changes in foreign currency exchange rates and interest rates. The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risk.

Market risk is identified, measured, monitored, and controlled by an independent risk control function. Market risk management aims to reduce volatility in operating performance and make the Bank's market risk profile transparent to Senior Management, the Board of Directors and Regulators.

Market risk management is overseen by the Management Risk and Credit Committee (MRCC) and performs the following primary functions:

- Establishment of a comprehensive market risk policy framework;
- Independent measurement, monitoring and control of market risk;
- Setting up, approval and monitoring of limits.

45 Market risk framework, measurement and monitoring (continued)

Risk identification and classification

The MRCC identifies and classifies market risk for the Bank and puts in place risk management policies and procedures. All business segments are responsible for comprehensive identification and verification of market risks within their business units. Regular meetings are held between market risk management and the heads of risk taking businesses to discuss and decide on risk exposures in the context of the market environment.

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are held by the Treasury and Derivatives Division, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

Market risk is broadly classified into trading and non-trading categories:

Trading risk

Market risk which includes interest rate risk, foreign exchange, equities and commodities and other trading risks involve the potential decline in net income or financial condition due to adverse changes in market rates.

Trading risk includes positions that are held by the Bank's trading unit whose main business strategy is to trade or make markets. Unrealised gains and losses in these positions are generally reported in principal transactions under consolidated income statement.

Non-trading risk

Non-trading risk arises from execution of the Bank's core business strategies, products and services to its customers, and the strategic positions the Bank undertakes to manage risk exposures.

These exposures can result from a variety of factors including but not limited to re-pricing of gaps in assets, liabilities and off-balance sheet instruments and changes in the level and shape of market interest rate curves.

Non-trading risk includes securities and other assets held for longer-term investment in securities and derivatives used to manage the Bank's asset/liability exposures. Unrealised gains and losses in these positions are generally not reported in principal transactions revenue.

Risk measurement

The following are the tools used to measure the market risk, because no single measure can reflect all aspects of market risk, the Bank uses various matrices, both statistical and non-statistical, including:

- Non-statistical risk measures; and
- Sensitivity analysis

**Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)**

45 Market risk framework, measurement and monitoring (continued)

Non-statistical risk measures

Non-statistical risk measures, other than stress testing, include net open positions, basis point values, option sensitivities, market values, position concentrations and position turnover. These measures provide granular information on the Bank's market risk exposure.

The Bank uses non-statistical scenario based risk limits to monitor and control market risk on a day to day basis.

Sensitivity Analysis

The scenarios used for interest rate risk assess the change in the portfolio to parallel and non-parallel rate shocks. The non-parallel rate shocks simulate steepening, bending and twisting interest rate scenarios.

Portfolio sensitivity for major interest rate and foreign currency exchange rate risks (parallel rate shock) is analysed separately for the Bank's trading portfolio as follows:

Market risk - Trading portfolio

The following table depicts the sensitivity of fair valuations in the Trading Book to hypothetical, instantaneous changes in the level of interest rates - with other market risk factors held constant – which would have an impact on the Bank's consolidated income statement:

Interest rate risk

Parallel Rate Moves in AED interest rate basis point (AED '000):

	+200 bps	**+100 bps**	**-100 bps**	**-200 bps**
December 31, 2009	**55,246**	**25,736**	**(20,382)**	**(33,303)**
December 31, 2008	(4,605)	(7,168)	20,185	57,299

Parallel Rate Moves in US$ interest rate basis point (AED '000):

	+200 bps	**+100 bps**	**-100 bps**	**-200 bps**
December 31, 2009	**(49,565)**	**(22,300)**	**9,335**	**6,475**
December 31, 2008	3,648	7,894	(25,388)	(73,833)

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

45 Market risk framework, measurement and monitoring (continued)

Market risk - Trading portfolio (continued)

Currency wise

The following table depicts the sensitivity of fair valuations in the Trading Book to hypothetical, instantaneous changes in the level of foreign currency exchange rates - with other market risk factors held constant – which would have an impact on the Bank's consolidated income statement:

Price Shock in Percentage (AED '000)

December 31, 2009		**+10%**	**+5%**	**-5%**	**-10%**
	AUD	**168**	**84**	**(84)**	**(168)**
	EUR	**(43)**	**(21)**	**21**	**43**
	GBP	**(11)**	**(5)**	**5**	**11**
	JPY	**(64)**	**(32)**	**32**	**64**
	US$	**(6,998)**	**(3,655)**	**4,051**	**8,553**

Price Shock in Percentage (AED '000):

December 31, 2008		+10%	+5%	-5%	-10%
	AUD	929	417	(94)	239
	EUR	(48)	(24)	24	48
	GBP	(10)	(5)	5	10
	JPY	(130)	(65)	65	130
	US$	(4,566)	(2,369)	2,960	6,354

Market risk – Non-trading portfolio

Portfolio sensitivity for major interest rate risk (parallel rate shock) is analysed separately for the Bank's non-trading portfolio as follows:

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

45 Market risk framework, measurement and monitoring (continued)

Market risk – Non-trading portfolio (continued)

Interest rate risk

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, and the impact of the Bank's consolidated income statement from Bank's non-trading portfolio.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities, including the effect of hedging instruments. The sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

	Change in basis points	Sensitivity of net interest income	Sensitivity of equity
		AED'000	AED'000
December 31, 2009	**+25**	**48,760**	**(11,190)**
	-25	**(48,760)**	**11,190**
December 31, 2008	+25	55,148	(29,996)
	-25	(55,148)	29,996

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The trading and non-trading equity price risk exposure arises from the Bank's investment portfolio.

46 Foreign currency balances

Net assets amounting to the Indian Rupee equivalent of AED 92,459 thousand (2008 – AED 73,243 thousand) held in India are subject to the exchange control regulations of India.

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

47 Trust activities

As at December 31, 2009, the net asset value of the funds under the management of the Bank amounted to AED 1,980,119 thousand (2008 – AED 1,137,801 thousand).

48 List of subsidiaries

The entities (other than the associates) have been treated as subsidiaries for the purpose of consolidation as the Bank has control over their financial and operating policies, has invested all or a majority of capital of these entities and is entitled to all or a majority of their profits/losses. The Bank's interest, held directly or indirectly, in the subsidiaries are as follows:

Name of subsidiary	Proportion of ownership interest	Year of incorporation	Country of incorporation	Principal activities
Al Dhabi Brokerage Services L.L.C.	100%	2005	U.A.E.	Agent in trading of financial instruments and stocks.
Abu Dhabi Risk and Treasury Solutions L.L.C. (note (i) below)	51%	2005	U.A.E.	Providing computer software and design in relation to risk and treasury solutions.
Abu Dhabi Commercial Properties L.L.C.	100%	2005	U.A.E.	Real estate property management and advisory services.
Abu Dhabi Commercial Engineering Services L.L.C.	100%	2007	U.A.E.	Engineering services.
ADCB Holdings (Cayman) Limited	100%	2008	Cayman Islands	Holding company.
ADCB Holdings (Labuan) Limited	100%	2008	Malaysia	Holding company.
ADCB Holdings (Malaysia) Sdn Bhd	100%	2008	Malaysia	Investment holding company.
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Treasury financing activities.
Abu Dhabi Commercial Islamic Finance P.S.C.	100%	2009	U.A.E.	Islamic banking.
Abu Dhabi Commercial Property Development L.L.C. (*)	100%	2006	U.A.E.	Property development.
Abu Dhabi Commercial Properties Consultancy L.L.C. (*)	100%	2008	U.A.E.	Real estate consultancy.

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

48 List of subsidiaries (continued)

Name of subsidiary	Proportion of ownership interest	Year of incorporation	Country of incorporation	Principal activities
Abu Dhabi Commercial Finance Solutions L.L.C. (*)	100%	2005	U.A.E.	Financial investments.
Abu Dhabi Commercial Investment Services L.L.C. (*)	100%	2005	U.A.E.	Financial investments.
Abu Dhabi Commercial Bank (UK) Limited(*)	100%	2008	United Kingdom	Process service agent.
Abu Dhabi Commercial Projects Services L.L.C. (*)	100%	2006	U.A.E.	Holding company for infrastructure investments.
Kinetic Infrastructure Development L.L.C. (*)	100%	2006	U.A.E.	Infrastructure projects and real estate development.
Al Reem Infrastructure Development L.L.C. (formerly known as Expansion Contracting L.L.C.) (*)	100%	2006	U.A.E.	Investment in commercial projects.
ADCB Fund Management S.A.R.L.	100%	2009	Luxembourg	Fund management company.
Al Nokhitha Investments Feeder Fund	100%	2009	Luxembourg	Mutual Fund.
MSCI UAE Index Feeder Fund	82%	2009	Luxembourg	Mutual Fund.
ADCB MSCI Arabian Markets Index Fund (note (ii) below)	100%	2009	Luxembourg	Mutual Fund.
ADCB MSCI Arabian Markets Index Feeder Fund	100%	2009	Luxembourg	Mutual Fund.
ACB LTIP (IOM) Limited	Controlling interest	2008	Isle of man	Trust activities.

(*) These subsidiaries are dormant.

48 List of subsidiaries (continued)

(i) The Bank shares its profit in Abu Dhabi Risk & Treasury Solutions L.L.C. in accordance with a separate agreement with the minority shareholders, as follows:

	Bank	Minority shareholders
Up to year 2011	51%	49%
Year 2012 to year 2015	75%	25%

The agreement also provides that the minority shareholders will not share any losses which are incurred as a consequence of the failure of a counterparty to perform its obligation to the subsidiary, Abu Dhabi Risk & Treasury Solutions L.L.C.

(ii) The Bank also holds 39% in ADCB MSCI Arabian Markets Index Fund through its 100% subsidiary ADCB MSCI Arabian Markets Index Feeder Fund. Accordingly, effective holding of the Bank in ADCB MSCI Arabian Markets Index Fund comes to 96% (Note 11)

49 Capital adequacy and capital management

Capital management process

The Bank’s objectives when managing capital, which is a broader concept than the ‘equity’ on the face of statement of financial position, are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a monthly basis.

The U.A.E. Central Bank vide its circular No. 27/2009 dated November 17, 2009 informed all the Banks operating in the U.A.E. to implement Standardised approach of Basel II from the date of the circular. For credit and market risk, the Central Bank has previously issued draft guideline for implementation of Standardised approach and Banks are expected to comply and report under pillar 2 – Internal Capital Adequacy Assessment Process (ICAAP) requirements by March 2010. For operational risk, the Central Bank has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Standardised approach. Banks in the U.A.E. are currently on a parallel run on Basel I and Basel II.

Further, all Banks operating in the U.A.E. are required to maintain a capital adequacy ratio at a minimum of 11% at all times increasing to 12% by June 30, 2010.

Notes to the consolidated financial statements for the year ended December 31, 2009 (continued)

49 Capital adequacy and capital management (continued)

The ratios calculated in accordance with Basel II and Basel I are as follows:

	Basel II		Basel I	
	2009	2008	**2009**	2008
	AED'000	AED'000	**AED'000**	AED'000
Tier 1 capital				
Share capital	**4,810,000**	4,810,000	**4,810,000**	4,810,000
Statutory and legal reserves	**2,627,979**	2,627,979	**2,627,979**	2,627,979
General and contingency reserves	**2,150,000**	2,150,000	**2,150,000**	2,150,000
Employees' incentive plan shares, net	**(13,438)**	(25,708)	**(13,438)**	(25,708)
Foreign currency translation reserve	**(353,736)**	(392,022)	**(353,736)**	(392,022)
Proposed dividends	**-**	481,000	**-**	481,000
Retained earnings	**1,360,623**	1,837,125	**1,360,623**	1,837,125
Non-controlling interest in equity of subsidiaries	**69,087**	107,603	**69,087**	107,603
Mandatory convertible securities	**4,742,932**	4,802,318	**4,742,932**	4,802,318
Capital notes	**4,000,000**	-	**4,000,000**	-
Less: Investments in associates (50%)	**(2,291,330)**	(2,213,765)	**(2,291,330)**	(2,213,765)
	17,102,117	14,184,530	**17,102,117**	14,184,530
Tier 2 capital				
Collective impairment allowance on loans and advances (Note 9)	**1,504,854**	1,059,272	**1,504,854**	1,059,272
Cumulative changes in fair value	**(194,279)**	(314,708)	**(194,279)**	(314,708)
Long term borrowings (Note 20)	**6,617,456**	-	**6,617,456**	-
Subordinated floating rate notes (Note 20)	**1,328,891**	1,469,200	**1,328,891**	1,469,200
Less: Investments in associates (50%)	**(2,291,329)**	(2,213,764)	**(2,291,329)**	(2,213,764)
	6,965,593	-	**6,965,593**	-
Total regulatory capital	**24,067,710**	14,184,530	**24,067,710**	14,184,530
Risk-weighted assets:				
On-statement of financial position	**-**	-	**128,512,025**	114,152,139
Off-balance sheet	**-**	-	**14,963,529**	16,399,817
Credit risk	**126,294,138**	114,377,569	**-**	-
Market risk	**6,523,298**	4,383,896	**-**	-
Operational risk	**5,657,608**	5,966,913	**-**	-
Total risk-weighted assets	**138,475,044**	124,728,378	**143,475,554**	130,551,956
Capital adequacy ratio	**17.38%**	11.37%	**16.77%**	10.87%

Notes to the consolidated financial statements
for the year ended December 31, 2009 (continued)

49 Capital adequacy and capital management (continued)

In accordance with the U.A.E. Central Bank guidelines, the collective impairment allowance on loans and advances is adjusted from the carrying value of loans and advances for computing the risk weighted assets. The capital adequacy ratio under these guidelines was 15.89% (2008 – 10.14%).

The capital adequacy ratio was above the minimum requirement of 11% for December 31, 2009 (December 31, 2008 – 10%) stipulated by the U.A.E. Central Bank.

50 Comparative figures

Certain comparative figures for the prior year have been reclassified, where necessary, to conform with the current year presentation.

51 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on January 26, 2010.

ABU DHABI COMMERCIAL BANK P.J.S.C.

Report and consolidated financial statements for the year ended December 31, 2008

ABU DHABI COMMERCIAL BANK P.J.S.C.

Report and consolidated financial statements for the year ended December 31, 2008

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Abu Dhabi Commercial Bank P.J.S.C.
Abu Dhabi, U.A.E.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Commercial Bank P.J.S.C. and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flow for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 3 to 84.

Management's responsibility for the consolidated financial statements

Management of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's responsibility (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects the financial position of the Bank as of December 31, 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Bank, and the information included in the Board of Directors' report is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions of the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended) or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance.

Sindaha

ديلويت آند توش
Abu Dhabi - U.A.E.
P.O.Box : 990
Deloitte & Touche

Saba Y. Sindaha
Registration Number 410
February 4, 2009

Consolidated balance sheet
as at December 31, 2008

	Notes	2008 AED'000	2007 AED'000	2008 US$'000
ASSETS				
Cash and balances with Central Banks	5	3,911,009	15,657,588	1,064,800
Deposits and balances due from banks	6	17,528,422	6,030,364	4,772,236
Trading securities	7	-	122,433	-
Loans and advances, net	8	108,812,970	75,676,082	29,625,094
Derivative financial instruments	9	6,202,686	3,068,242	1,688,725
Investment securities	10	3,422,794	2,968,188	931,880
Investments in associates	11	4,427,529	-	1,205,426
Investment properties	12	632,492	445,730	172,200
Other assets	13	2,210,122	1,752,721	601,721
Property and equipment, net	14	580,186	492,501	157,960
Total assets		147,728,210	106,213,849	40,220,042
LIABILITIES				
Due to banks	15	6,905,263	5,598,376	1,880,006
Customers' deposits	16	84,360,821	57,160,820	22,967,825
Mandatory convertible securities – liability component	17	168,435	-	45,858
Short and medium term borrowings	18	30,566,548	27,370,264	8,321,957
Derivative financial instruments	9	6,363,966	2,413,269	1,732,634
Other liabilities	19	3,448,025	2,259,377	938,749
Total liabilities		131,813,058	94,802,106	35,887,029
EQUITY				
Share capital	20	4,810,000	4,000,000	1,309,556
Statutory and legal reserves	21	2,627,979	2,380,661	715,486
General and contingency reserves	21	2,150,000	2,150,000	585,353
Employees' incentive plan shares, net	22	(25,708)	-	(6,999)
Foreign currency translation reserve		(392,022)	8,253	(106,731)
Proposed dividends	23	481,000	1,210,000	130,956
Cumulative changes in fair values		(625,014)	(94,854)	(170,164)
Retained earnings		2,147,431	1,643,452	584,653
Mandatory convertible securities – equity component	17	4,633,883	-	1,261,607
Equity attributable to equity holders of the parent		15,807,549	11,297,512	4,303,717
Minority interest		107,603	114,231	29,296
Total equity		15,915,152	11,411,743	4,333,013
Total liabilities and equity		147,728,210	106,213,849	40,220,042
Commitments and contingent liabilities	34	52,161,266	55,604,642	14,201,270

Eissa Al Suwaidi
Chairman

Ala'a Eraiqat
Chief Executive Officer

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated income statement
for the year ended December 31, 2008

	Notes	2008 AED'000	2007 AED'000	2008 US$'000
Interest income	24	**5,945,910**	5,992,224	**1,618,816**
Interest expense	25	**(3,437,434)**	(3,703,809)	**(935,866)**
Net interest income		**2,508,476**	2,288,415	**682,950**
Net fee and commission income	26	**982,094**	873,960	**267,382**
Net gains from dealing in foreign currencies	27	**278,558**	116,566	**75,839**
Increase in fair value of investment properties	12	**178,148**	295,361	**48,502**
Net gain on dealing in derivatives		**131,015**	87,724	**35,670**
Dividend income		**11,076**	356	**3,016**
Net gain from trading and investment securities	28	**78,565**	105,456	**21,390**
Other operating income		**78,675**	32,036	**21,420**
Share of profit of associates, net		**171,557**	-	**46,708**
Operating income		**4,418,164**	3,799,874	**1,202,877**
Staff expenses		**(848,110)**	(543,743)	**(230,904)**
Depreciation	14	**(57,330)**	(50,252)	**(15,608)**
Other operating expenses		**(619,721)**	(414,635)	**(168,723)**
Impairment allowances on financial assets	29	**(1,498,147)**	(702,958)	**(407,881)**
Operating expenses		**(3,023,308)**	(1,711,588)	**(823,116)**
Profit from operations before distribution to depositors and taxation		**1,394,856**	2,088,286	**379,761**
Distribution to depositors	16	**(27,865)**	-	**(7,586)**
Overseas income tax expense	31	**(8,518)**	(3,356)	**(2,319)**
Net profit for the year		**1,358,473**	2,084,930	**369,856**
Attributed to:				
Equity holders of the parent		**1,236,592**	1,987,518	**336,673**
Minority interest		**121,881**	97,412	**33,183**
Net profit for the year		**1,358,473**	2,084,930	**369,856**
Basic and diluted earnings per share (AED/US$)	30	**0.26**	0.41	**0.07**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended December 31, 2008

	Notes	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Mandatory convertible securities – equity component AED'000	Foreign currency translation reserve AED'000	Proposed dividends AED'000	Cumulative changes in fair values AED'000	Employees' incentive plan shares AED'000	Employees' incentive plan reserve AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interest AED'000	Total equity AED'000
Balance at January 1, 2008		**4,000,000**	**1,212,724**	**1,167,937**	**2,000,000**	**150,000**	**-**	**8,253**	**1,210,000**	**(94,854)**	**-**	**-**	**1,643,452**	**11,297,512**	**114,231**	**11,411,743**
Exchange difference arising on translation of foreign operations and associates		-	-	-	-	-	-	(421,285)	-	-	-	-	-	(421,285)	-	(421,285)
Fair value changes on available for sale investments		-	-	-	-	-	-	-	-	(544,713)	-	-	-	(544,713)	-	(544,713)
Realised loss on sale of available for sale investments		-	-	-	-	-	-	-	-	11,608	-	-	-	11,608	-	11,608
Share of comprehensive income statement items of associate (RHB Capital Berhad)	11	-	-	-	-	-	-	21,010	-	3,400	-	-	-	24,410	-	24,410
Sub total		-	-	-	-	-	-	(400,275)	-	(529,705)	-	-	-	(929,980)	-	(929,980)
Issue of mandatory convertible securities	17	-	-	-	-	-	4,633,883	-	-	-	-	-	-	4,633,883	-	4,633,883
Dividends paid	23	-	-	-	-	-	-	-	(400,000)	-	-	-	-	(400,000)	(128,509)	(528,509)
Bonus shares issued	23	810,000	-	-	-	-	-	-	(810,000)	-	-	-	-	-	-	-
Shares granted	22	-	-	-	-	-	-	-	-	-	(38,131)	-	-	(38,131)	-	(38,131)
Shares-vested portion	22	-	-	-	-	-	-	-	-	-	-	12,423	-	12,423	-	12,423
Net profit for the year 2008		-	-	-	-	-	-	-	-	-	-	-	1,236,592	1,236,592	121,881	1,358,473
Board of directors' Remuneration		-	-	-	-	-	-	-	-	-	-	-	(4,750)	(4,750)	-	(4,750)
Transfer to statutory reserve	21	-	123,659	-	-	-	-	-	-	-	-	-	(123,659)	-	-	-
Transfer to legal reserve	21	-	-	123,659	-	-	-	-	-	-	-	-	(123,659)	-	-	-
Realised loss on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)		-	-	-	-	-	-	-	-	(455)	-	-	455	-	-	-
Proposed dividends	23	-	-	-	-	-	-	-	481,000	-	-	-	(481,000)	-	-	-
Balance at December 31, 2008		**4,810,000**	**1,336,383**	**1,291,596**	**2,000,000**	**150,000**	**4,633,883**	**(392,022)**	**481,000**	**(625,014)**	**(38,131)**	**12,423**	**2,147,431**	**15,807,549**	**107,603**	**15,915,152**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended December 31, 2008 (continued)

	Notes	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Foreign currency translation reserve AED'000	Proposed dividends AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interest AED'000	Total equity AED'000
Balance at January 1, 2007		4,000,000	1,013,972	969,185	1,925,000	150,000	-	1,210,000	47,329	1,342,892	10,658,378	65,800	10,724,178
Exchange difference arising on translation of foreign operations		-	-	-	-	-	8,253	-	-	-	8,253	-	8,253
Fair value changes on available for sale investments		-	-	-	-	-	-	-	(144,581)	-	(144,581)	-	(144,581)
Realised loss on sale of available for sale investments		-	-	-	-	-	-	-	2,694	-	2,694	-	2,694
Sub total		-	-	-	-	-	8,253	-	(141,887)	-	(133,634)	-	(133,634)
Dividends paid	23	-	-	-	-	-	-	(1,210,000)	-	-	(1,210,000)	(48,981)	(1,258,981)
Net profit for the year 2007		-	-	-	-	-	-	-	-	1,987,518	1,987,518	97,412	2,084,930
Transfer to statutory reserve	21	-	198,752	-	-	-	-	-	-	(198,752)	-	-	-
Transfer to legal reserve	21	-	-	198,752	-	-	-	-	-	(198,752)	-	-	-
Transfer to general reserve	21	-	-	-	75,000	-	-	-	-	(75,000)	-	-	-
Board of directors' remuneration		-		-	-	-	-	-	-	(4,750)	(4,750)	-	(4,750)
Realised loss on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)		-	-	-	-	-	-	-	(296)	296	-	-	-
Proposed cash dividends	23	-	-	-	-	-	-	1,210,000	-	(1,210,000)	-	-	-
Balance at December 31, 2007		4,000,000	1,212,724	1,167,937	2,000,000	150,000	8,253	1,210,000	(94,854)	1,643,452	11,297,512	114,231	11,411,743

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flow for the year ended December 31, 2008

	Notes	2008 AED'000	2007 AED'000	2008 US$ 000
OPERATING ACTIVITIES				
Net profit after distribution to depositors but before taxation and minority interest		**1,366,991**	2,088,286	**372,173**
Adjustments for:				
Exchange differences arising on translation of foreign operations		**(16,100)**	7,589	**(4,383)**
Depreciation on property and equipment	14	**57,330**	50,252	**15,609**
Dividend income		**(11,076)**	(356)	**(3,016)**
Gain on sale of property and equipment		**-**	(396)	**-**
Allowance for doubtful loans and advances, net	8	**934,722**	295,300	**254,485**
Recovery of allowance for doubtful loans and advances	8	**(176,282)**	(151,937)	**(47,994)**
Impairment allowance on credit default swaps	29	**443,637**	66,060	**120,783**
Impairment allowance on investment securities	29	**296,070**	493,535	**80,607**
Net gain from sale of investment securities	28	**(78,565)**	(105,456)	**(21,390)**
Increase in fair value of investment properties	12	**(178,148)**	(295,361)	**(48,502)**
Share of profit of associates		**(171,557)**	-	**(46,708)**
Imputed interest on mandatory convertible securities	17	**23,953**	-	**6,521**
Employees' incentive plan benefit expense		**12,423**	-	**3,382**
Operating profit before changes in operating assets and liabilities		**2,503,398**	2,447,516	**681,567**
Decrease in due from banks		**251,905**	1,994,085	**68,583**
Increase in trading securities		**-**	(44,803)	**-**
Increase in net trading derivative financial instruments		**(813)**	(271,943)	**(221)**
Increase in loans and advances		**(34,338,965)**	(13,394,796)	**(9,349,024)**
Increase in other assets		**(476,269)**	(341,600)	**(129,668)**
(Decrease)/increase in due to banks		**(1,404,277)**	2,324,877	**(382,324)**
Increase in customers' deposits		**27,200,001**	13,763,968	**7,405,391**
Increase in other liabilities		**1,180,130**	611,712	**321,299**
Cash (used in)/from operations		**(5,084,890)**	7,089,016	**(1,384,397)**
Directors' remuneration paid		**(4,750)**	(4,750)	**(1,293)**
Overseas taxation refund/(paid)		**18,868**	(2,686)	**5,137**
Net cash (used in) /from operations		**(5,070,772)**	7,081,580	**(1,380,553)**
INVESTING ACTIVITIES				
Investments in associates		**(4,231,562)**	-	**(1,152,072)**
Dividend income		**11,076**	356	**3,016**
Purchase of investment securities		**(2,384,099)**	(1,141,700)	**(649,088)**
Proceeds from sale of investment securities		**1,301,316**	1,344,290	**354,292**
Purchase of property and equipment, net		**(154,798)**	(90,515)	**(42,145)**
Purchase of investment properties		**-**	(90,072)	**-**
Proceeds from sale of property and equipment		**-**	550	**-**
Exchange differences arising on translation of foreign operations		**(404,016)**	-	**(109,996)**
Net cash (used in)/from investing activities		**(5,862,083)**	22,909	**(1,595,993)**
FINANCING ACTIVITIES				
Net proceeds from short and medium term borrowings		**4,013,350**	10,569,551	**1,092,663**
Dividends paid to Bank's shareholders		**(400,000)**	(1,210,000)	**(108,903)**
Dividends paid to minority shareholders		**(128,509)**	(48,981)	**(34,987)**
Net proceeds from issue of mandatory convertible securities		**4,778,365**	-	**1,300,943**
Employees' incentive plan shares related payments		**(38,131)**	-	**(10,381)**
Net cash from financing activities		**8,225,075**	9,310,570	**2,239,335**
(Decrease)/increase in cash and cash equivalents		**(2,707,780)**	16,415,059	**(737,211)**
Cash and cash equivalents at the beginning of the year		**17,851,889**	1,436,830	**4,860,302**
Cash and cash equivalents at the end of the year	32	**15,144,109**	17,851,889	**4,123,091**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended December 31, 2008

1 Activities

Abu Dhabi Commercial Bank P.J.S.C. (the "Bank") is a public joint stock company with limited liability incorporated in the Emirate of Abu Dhabi, United Arab Emirates (U.A.E.). The Bank changed its name from Khalij Commercial Bank to Abu Dhabi Commercial Bank after merging with Emirates Commercial Bank and Federal Commercial Bank on July 1, 1985. The Bank carries on retail banking, commercial banking, investment banking, merchant banking, Islamic banking, brokerage and asset management activities through its network of thirty nine branches in the U.A.E., two branches in India, its subsidiaries, joint ventures and associates.

The registered head office of the Bank is at P. O. Box 939, Abu Dhabi, U.A.E.

The Bank is registered as a public joint stock company in accordance with the U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended).

The consolidated financial statements are prepared and presented in United Arab Emirates Dirhams (AED), which is the Bank's functional and presentation currency.

The US Dollar (US$) amounts are presented for the convenience of the reader.

2 Adoption of new and revised standards

The following three interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) effective for the current year are as follows:

- IFRIC 11 *IFRS 2 Group and Treasury Share Transactions*
- IFRIC 12 *Service Concession Arrangements*
- IFRIC 14 *IAS 19 The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their interaction.*

The adoption of these interpretations has not led to any material changes in the Bank's accounting policies.

At the date of authorisation of these consolidated financial statements, the following standards and interpretations were in issue but not yet effective:

2 Adoption of new and revised standards (continued)

New Standards and Amendments to Standards:

• IAS 1 (revised) *Presentation of Financial Statements*	Effective for annual periods beginning on or after January 1, 2009
• IAS 1 (revised) *Presentation of Financial Statements* and IAS 32 (revised) *Financial Instruments: Presentation – Amendments relating to puttable instruments and obligations arising on liquidation*	Effective for annual periods beginning on or after January 1, 2009
• IAS 23 (revised) *Borrowing Costs*	Effective for annual periods beginning on or after January 1, 2009
• IAS 39 (revised) *Financial Instruments: Recognition and Measurement- Amendments for eligible hedged Items*	Effective for annual periods beginning on or after July 1, 2009
• IFRS 1 (revised) *First time Adoption of IFRS* and IAS 27 (revised) *Consolidated and Separate Financial Statements – Amendment relating to cost of an investment on first time adoption*	Effective for annual periods beginning on or after January 1, 2009
• IFRS 2 (revised) *Share-based payment – Amendment relating to vesting conditions and cancellations*	Effective for annual periods beginning on or after January 1, 2009
• IFRS 3 (revised) *Business Combinations – Comprehensive revision on applying the acquisition method and consequential amendments to* IAS 27 (revised) *Consolidated and Separate Financial Statements,* IAS 28 (revised) *Investments in Associates* and IAS 31 (revised) *Interests in Joint Ventures*	Effective for annual periods beginning on or after July 1, 2009
• IFRS 8 *Operating Segments*	Effective for annual periods beginning on or after January 1, 2009
• Amendments to IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 *resulting from the May and October 2008 Annual Improvements to IFRS*	Effective for annual periods beginning on or after January 1, 2009

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

2 Adoption of new and revised standards (continued)

New Interpretations:

• IFRIC 13 *Customer Loyalty Programmes*	Effective for annual periods beginning on or after July 1, 2008
• IFRIC 15 *Agreements for the Construction of Real Estate*	Effective for annual periods beginning on or after January 1, 2009
• IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	Effective for annual periods beginning on or after October 1, 2008
• IFRIC 17 *Distributions of Non-cash Assets to Owners*	Effective for annual periods beginning on or after July 1, 2009
• IFRIC 18 *Transfers of Assets from Customers*	Effective for annual periods beginning on or after July 1, 2009

The directors anticipate the adoption of those standards and interpretations in future periods will have no material impact on the consolidated financial statements of the Bank in the period of initial application.

3 Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared on going concern basis and in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of the Laws of the U.A.E.

As required by the Securities and Commodities Authority of the U.A.E. (“SCA”) Notification No. 2624/2008 dated October 12, 2008, the Bank’s exposure in Cash and balances with Central banks, Due from banks and Investment securities outside the U.A.E. have been presented under the respective notes.

3.2 Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties which are carried at fair value. In addition, as explained below, assets and liabilities that are hedged are carried at fair value to the extent of the risk being hedged.

3 Significant accounting policies (continued)

3.3 Basis of consolidation

These consolidated financial statements incorporate the financial statements of Abu Dhabi Commercial Bank P.J.S.C. and its subsidiaries (collectively referred to as "the Bank") as set out in Note 44. The entities controlled by the Bank have been treated as subsidiaries. Control is achieved when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies. All significant inter-company balances, income and expense items are eliminated on consolidation.

Minority interest represents the portion of profit or loss for the year and net assets of consolidated subsidiaries not owned directly or indirectly by the Bank and are identified separately from the Bank's equity therein, except for losses applicable to the minority interest in Abu Dhabi Risk and Treasury Solutions L.L.C., which are allocated against the interest of the Bank as stated in Note 44. Minority interest consist of minority shareholders' share in the net equity of the subsidiaries.

3.4 Due from banks

Due from banks are stated at cost less any amounts written off and allowance for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged with the resultant adjustment taken to the consolidated income statement.

3.5 Investments

Trading securities

Investments are considered as held for trading if they have been acquired principally for the purpose of selling in the near term, or if they form part of an identified portfolio of financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Trading securities are initially recognised and subsequently measured at fair value with any unrealised gain or loss arising from the change in fair value and realised gains and losses taken to the consolidated income statement. Interest income and dividend income are recorded in the consolidated income statement according to the terms of the contracts, or when the right to the payment has been established.

Held for trading securities have been reclassified to available for sale investments in accordance with the amendments made to International Accounting Standards (IAS) 39 issued on October 13, 2008.

3 Significant accounting policies (continued)

3.5 Investments (continued)

Investment securities

These are classified as follows:
- Held to maturity
- Available for sale

All investments are initially recognised at cost, being the fair value of consideration paid plus transaction costs that are directly attributable to the acquisition.

Held to maturity

Investments which have fixed or determinable payments with fixed maturities which the Bank has the intention and ability to hold to maturity, are classified as held to maturity investments. Held to maturity investments are carried at amortised cost, using effective interest rate method less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition using an effective interest rate method.

Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised or impaired.

Investments classified as held to maturity and not close to their maturity, cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to interest rate or prepayment risk, reflecting the longer-term nature of these investments.

Available for sale

Investments not classified as either "held for trading" or "held to maturity" are classified as "available for sale".

After initial recognition, investments which are classified as "available for sale" are remeasured at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the cumulative changes in fair value with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in the consolidated income statement. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in equity in the cumulative changes in fair value is included in the consolidated income statement for the year.

Dividends on available for sale equity instruments are recognised in the consolidated income statement when the Bank's right to receive the dividends is established.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

3 Significant accounting policies (continued)

3.6 Fair values

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.
- The fair value of available for sale monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in the consolidated income statement, and other changes are recognised in equity.

3.7 Investments in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

3 Significant accounting policies (continued)

3.7 Investments in associates (continued)

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Bank's share of the net assets of the associate, less any impairment in the value of individual investments and share of changes in the statement of changes in equity. Losses of an associate in excess of the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate) are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Bank's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a Bank's subsidiary or other associate transacts with an associate of the Bank, profits and losses are eliminated to the extent of the Bank's interest in the relevant associate.

3.8 Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments.

Loans and advances are stated at amortised cost less any amounts written off and allowance for doubtful accounts. The carrying values of loans and advances which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged with the resultant adjustment recognised in the consolidated income statement.

Allowance for impairment is made against loans and advances when their recovery is in doubt taking into consideration IFRS requirements for fair value measurement. Loans and advances are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

3 Significant accounting policies (continued)

3.9 Impairment of financial assets

Financial assets, other than those that are held for trading, are assessed for indicators of impairment at each consolidated balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. When an advance receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Any subsequent increase in the fair value of an equity instrument against which an impairment loss was previously recognised cannot be reversed through the consolidated income statement, rather can be recognised directly in equity.

3.10 Impairment of tangible and intangible assets

At each consolidated balance sheet date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

3 Significant accounting policies (continued)

3.10 Impairment of tangible and intangible assets (continued)

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.11 Loan impairment

Individually assessed loans

Individually assessed loans mainly represent corporate and commercial loans which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. Loans are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Bank in accordance with the original contractual terms. Doubts about the borrower's ability to meet payment obligations generally arise when:

a) Principal and interest are not serviced as per contractual terms; and,
b) When there is significant deterioration in the borrower's financial condition and the amount expected to be realised from disposals of collaterals, if any, are not likely to cover the present carrying value of the loan.

Impaired loans are measured on the basis of the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or fair value of the collaterals if the loan is collateral dependent. Impairment loss is calculated as the difference between the loan's carrying value and its present impaired value.

Notes to the consolidated financial statements
for the year ended December 31, 2008 (continued)

3 Significant accounting policies (continued)

3.11 Loan impairment (continued)

Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances calculated on:

a) Performing loans; and,
b) Retail loans with common features and which are not individually significant.

Performing loans

Where individually assessed loans are evaluated and no evidence of loss has been identified, these loans are classified as performing loans portfolio with common credit risk characteristics based on industry, product or loan rating. Impairment covers losses which may arise from individual performing loans that are impaired at the consolidated balance sheet date but were not specifically identified as such until some time in the future. The estimated impairment is calculated by the Bank's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Retail loans with common features and which are not individually significant

Impairment of retail loans is calculated by applying a formula approach which allocates progressively higher loss rates in line with the overdue installment date.

Renegotiated loans

Retail loans, which are subject to collective impairment review and whose terms have been renegotiated, are no longer considered to be past due and consequently considered impaired only when the minimum required number of payments under the new arrangements have not been received and the borrower has not complied with the revised terms and conditions.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to continuous review to determine whether they remain impaired or are considered to be past due depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the loans to be moved to performing category.

Loans that are either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

3 Significant accounting policies (continued)

3.12 Collateral pending sale

The Bank occasionally acquires real estate and other collaterals in settlement of certain loans and advances. Such real estate and other collaterals are stated at the lower of the net realisable value of the loans and advances and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation are recognised in the consolidated income statement.

3.13 Derivative financial instruments

A derivative is a financial instrument whose value changes in response to an underlying variable, that requires little or no initial investment and that is settled at a future date.

The Bank enters into a variety of derivative financial instruments to manage the exposure to interest and foreign exchange rate risks, including forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps and currency and interest rate options (both written and purchased).

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

For the purpose of hedge accounting, the Bank classifies hedges into two categories: (a) fair value hedges, which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges, which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objectives and strategies are documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

3 Significant accounting policies (continued)

3.13 Derivative financial instruments (continued)

Fair value hedges

Where a hedging relationship is designated as a fair value hedge, the hedged item is adjusted for the change in fair value in respect of the risk being hedged. Gains or losses on the re-measurement of both the derivative and the hedged item are recognised in the consolidated income statement. Fair value adjustments relating to the hedging instrument are allocated to the same consolidated income statement category as the related hedged item. Any ineffectiveness is also recognised in the same consolidated income statement category as the related hedged item. If the derivative expires, is sold, terminated, exercised, no longer meets the criteria for fair value hedge accounting, or the designation is revoked, hedge accounting is discontinued. Any adjustment up to that point, to a hedged item for which the effective interest method is used, is amortised in the consolidated income statement as part of the recalculated effective interest rate over the period to maturity.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in the cash flow hedging reserve in equity. The ineffective part of any gain or loss is recognised immediately in the consolidated income statement as trading revenue/loss. Amounts accumulated in equity are transferred to the consolidated income statement in the periods in which the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the cumulative gains or losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, the cumulative gains or losses recognised in equity remain in equity until the forecast transaction is recognised, in the case of a non-financial asset or a non-financial liability, or until the forecast transaction affects the consolidated income statement. If the forecast transaction is no longer expected to occur, the cumulative gains or losses recognised in equity are immediately transferred to the consolidated income statement and classified as trading revenue/loss.

Derivatives that do not qualify for hedge accounting

All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the consolidated income statement as trading revenue/loss. However, the gains and losses arising from changes in the fair values of derivatives that are managed in conjunction with financial instruments designated at fair value are included in net income from financial instruments designated at fair value under other non-interest revenue/loss.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated income statement.

3 Significant accounting policies (continued)

3.14 Investment properties

Investment properties are held to earn rental income and/or capital appreciation. Investment property includes cost of initial purchase, developments transferred from property under development, subsequent cost of development and fair value adjustments. Investment property is reflected at valuation based on fair value at the balance sheet date. The fair values are the estimated amounts for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The fair value is determined on periodic basis by independent professional valuers. Fair value adjustments on investment property are included in the consolidated income statement in the period in which these gains or losses arise.

3.15 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method, as follows:

Freehold properties	15 to 25 years
Leasehold properties	5 to 10 years
Furniture, equipment and vehicles	3 to 5 years
Computer equipment and accessories	3 to 10 years

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

3.16 Capital work in progress

Capital work in progress is stated at cost. When the asset is ready for use, capital work in progress is transferred to the appropriate property and equipment category and depreciated in accordance with the Bank's policies.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

3 Significant accounting policies (continued)

3.17 Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

3.18 Customers' deposits and short and medium term borrowings

Customers' deposits and short and medium term borrowings are initially measured at fair value which is normally consideration received, net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective interest method.

Wakala deposits

The Principal appoints the agent (the Bank) to invest its funds in Shari'ah compliant Investments. The Principal's funds will form part of the agent's treasury pool of funds that are invested by the agent in compliance with the rules and principles of Islamic Shari'ah as defined by the Fatwa and Shari'ah Supervisory Board of the agent. The agent will declare the profit rate to the customer in advance. The agent is obliged to guarantee the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

Profit distribution on Wakala deposits

Profit distribution is made between deposit and saving account holders and shareholders according to the instructions of Fatwa and Shari'ah supervisory board:

Net income of all items of Mudaraba Pool at the end of each quarter, is the net profit distributable between the shareholders and depositors and saving account holders.

The share of unrestricted investment and saving account holders is calculated out from the net profit at the end of each quarter by adopting the separate investment account method after deducting the agreed upon and declared Mudaraba fee percentage.

3 Significant accounting policies (continued)

3.19 Mandatory convertible securities

The component parts of mandatory convertible securities issued by the Bank are classified separately as equity and financial liability in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date. The equity component is determined by deducting the amount of the liability component from the fair value of the convertible securities as a whole. This is recognised and included as a separate component in the consolidated statement of changes in equity, and is not subsequently re-measured.

3.20 Employees' end of service benefits

The Bank provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Pension and national insurance contributions for the U.A.E. citizens are made by the Bank in accordance with Federal Law No. 7 of 1999.

3.21 Provisions and contingent liabilities

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Bank's control. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

3.22 Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated balance sheet and are measured in accordance with accounting policies for investment securities. The liability for amounts received under these agreements is included in other liabilities. The difference between sale and repurchase price is treated as interest expense using the effective interest rate yield method. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated balance sheet. Amounts paid under these agreements are included in other assets. The difference between purchase and resale price is treated as interest income using the effective yield method.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

3 Significant accounting policies (continued)

3.23 Acceptances

Acceptances have been considered within the scope of IAS 39 *(Financial Instruments: Recognition and Measurement)* and are recognised as financial liability in the consolidated balance sheet with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

3.24 Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

3.25 Recognition and de-recognition of financial instruments

The Bank recognises a financial asset or liability in its consolidated balance sheet only when it becomes party to the contractual provisions of that instrument. Financial assets are derecognised when the right to receive cash flows from the assets has expired or when the Bank has transferred its contractual right to receive the cash flows of the financial assets, and substantially all the risks and rewards of ownership, or where control is not retained. Financial liabilities are derecognised when they are extinguished - that is when the obligation specified in the contract is discharged, cancelled or expired.

3.26 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated balance sheet only when there is a legally enforceable right to set off the recognised amounts and when the Bank intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

3.27 Fiduciary activities

The Bank acts as trustees/manager and in other capacities that result in holding or placing of assets on behalf of trusts or other institutions. These assets and income arising thereon are not included in the Bank's consolidated financial statements as they are not assets of the Bank.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

3 Significant accounting policies (continued)

3.28 Taxation

Provision is made for current and deferred taxes arising from operating results of overseas branches and subsidiaries in accordance with the fiscal regulations of the countries in which the Bank operates.

3.29 Revenue and expense recognition

Interest income and expense and loan commitment fees are recognised on a time proportion basis, taking into account the principal outstanding and the rate applicable. Commission and fee income are generally accounted for on the date the transaction arises. Interest accruing on loans and advances considered doubtful is excluded from income until received. Subsequently, notional interest is recognised on doubtful loans and advances and other financial assets based on the rate used to discount the net present value of future cash flows. Other fees receivable or payable are recognised when earned.

Gain or loss on trading and investment securities comprises all gains and losses from changes in the fair value of held for trading securities and gains or losses on disposal of investment securities. Gain or loss on disposal of trading and held to maturity investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs. Gain or loss on disposal of available for sale investments represents the difference between sale proceeds and their original cost less associated selling costs.

Dividend revenue from investments is recognised when the Bank's right to receive payments has been established.

3.30 Foreign currencies

Transactions in currencies other than AED are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are revalued at the rates prevailing on the consolidated balance sheet date. Profits and losses arising on exchange are included in the consolidated income statement.

The assets and liabilities of the Bank's overseas operations are translated at exchange rates prevailing on the consolidated balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Bank's retained earnings. Such translation differences are recognised as income or as expense in the year in which the operation is disposed of.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

3 Significant accounting policies (continued)

3.31 Trade and settlement date accounting

The "regular way" purchases and sales of financial assets are recognised on the settlement date basis i.e. the date that the Bank physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Bank has committed to purchase at the consolidated balance sheet date is recognised in the consolidated income statement for assets classified as held for trading and in the consolidated statement of changes in equity for assets classified as available for sale.

3.32 Cash and cash equivalents

Cash and cash equivalents disclosed in the cash flow statement consist of cash and balances with central banks, due from banks and due to banks which are maturing within three months.

3.33 Dividends

Dividends are recognised in equity in the year in which they are declared. Dividends declared after balance sheet date are disclosed as proposed dividends.

3.34 Employees' incentive plan shares

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Bank's estimate of equity instruments that will eventually vest. At each consolidated balance sheet date, the Bank revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the consolidated income statement over the remaining vesting period, with a corresponding adjustment to the employees' incentive plan reserve.

4 Critical accounting judgements and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 3, the management of the Bank has made certain judgments. These judgments mainly have a significant effect on the carrying amounts of loans and advances, investment securities and the fair values of derivative financial instruments. The significant judgments made by the management in arriving at the carrying amounts of loans and advances, investment securities, investment in associates and fair values of derivative financial instruments are summarised as follows:

4.1 Loans and advances

The impairment allowance for loan losses is established through charges to the consolidated income statement in the form of an impairment allowance for doubtful loans and advances.

4.1.1 Individually assessed loans

Impairment losses for individually assessed loans are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to the portfolio-based-approach.

The following factors are considered by management when determining allowance for impairment on individual loans and advances which are significant:

- The amount expected to be realised on disposals of collaterals.
- The Bank's ability to enforce its claim on the collaterals and associated cost of litigation.
- The expected time frame to complete legal formalities and disposals of collaterals.

The Bank's policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

4.1.2 Collectively assessed loans

Collective assessment of allowance for impairment is made for overdue retail loans with common features which are not individually significant and performing loans which are not found to be individually impaired.

4 Critical accounting judgements and key sources of estimation of uncertainty (continued)

4.1 Loans and advances (continued)

4.1.2 Collectively assessed loans (continued)

The following factors are considered by management when determining allowance for impairment for such loans:

Retail loans – All the loans falling under similar overdue category are assumed to carry similar credit risk and allowance for impairment is taken on a gross basis.

Other performing loans – The management of the Bank assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the consolidated balance sheet date.

4.2 Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent, practical models use only observable data, however; areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

4.3 Impairment of available for sale investments

The Bank exercises judgment to consider impairment on the available for sale investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgment, the Bank evaluates among other factors, the normal volatility in market price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

4.4 Impairment of investments in associates

After application of equity method of accounting, the Bank determines whether it is necessary to recognise for any additional impairment loss on the carrying value of the investment in associate by comparing its recoverable amount with the higher of value in use or fair value less costs to sell with its carrying amount.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

4 Critical accounting judgements and key sources of estimation of uncertainty (continued)

4.4 Impairment of investments in associates (continued)

In determining the value in use of the investment, the Bank estimates:

i) its share of the present value of the estimated future cash flows expected to be generated by the associates, including the cash flows from the operations of the associates and the proceeds on the ultimate disposal of the investment; or

ii) the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal.

4.5 Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt.

b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

5 Cash and balances with Central Banks

	2008 AED'000	2007 AED'000
Cash on hand	**509,628**	367,461
Balances with Central Banks	**3,151,381**	2,290,127
Certificate of deposits with Central Bank	**250,000**	13,000,000
	3,911,009	15,657,588

The geographical concentration is as follows:

	2008 AED'000	2007 AED'000
Within the U.A.E.	**3,890,266**	15,623,787
Outside the U.A.E.	**20,743**	33,801
	3,911,009	15,65

6 Deposits and balances due from banks

	2008 AED'000	2007 AED'000
Current and demand deposits	**143,247**	60,366
Murabaha placements	**586,000**	157,093
Placements	**16,799,175**	5,812,905
	17,528,422	6,030,364

The geographical concentration is as follows:

	2008 AED'000	2007 AED'000
Within the U.A.E.	**6,910,198**	2,996,974
Outside the U.A.E.	**10,618,224**	3,033,390
	17,528,422	6,030,364

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

7 Trading securities

	2008 AED'000	2007 AED'000
Fair value:		
Quoted fund	**-**	122,278
Mutual funds	**-**	155
	-	122,433

Trading securities represent investments in funds that present the Bank with an opportunity of return through dividend income and trading gains. They have no fixed maturity or coupon rate. The fair values of these securities are based on the net asset values provided by the Funds' managers.

During the year, the trading securities were reclassified to available for sale investment. This reclassification was made in accordance with the recent amendments to IAS 39 issued on October 13, 2008 with respect to reclassification of financial assets. The fair value of the trading securities at the date of reclassification was AED 116,382 thousand and at December 31, 2008 was AED 27,390 thousand. The fair value loss on these securities at December 31, 2008 amounting to AED 88,992 thousand (2007- AED 45,270 thousand have been recognised in the consolidated income statement) have been recognised under cumulative changes in fair values in the consolidated statement of changes in equity.

8 Loans and advances, net

	2008 AED'000	2007 AED'000
Overdrafts (Retail and Corporate)	**22,376,570**	14,021,744
Retail loans	**11,376,290**	7,122,069
Corporate loans	**74,777,891**	53,033,990
Credit cards	**1,138,426**	685,182
Islamic financing	**46,188**	-
Other facilities	**1,355,735**	1,963,054
	111,071,100	76,826,039
Less: Allowance for impairment	**(2,258,130)**	(1,149,957)
	108,812,970	75,676,082

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

8 Loans and advances, net (continued)

During the year, the Bank has changed the risk classification of loans and advances to comply with the requirements of Central Bank of United Arab Emirates and Basel II guidelines as follows:

Risk Category	**2008**	2007
Performing loans	**Less than 30 days**	Less than 90 days
Other loans exceptionally monitored	**Between 30 and 90 days**	Between 90 and 180 days
Non performing loans	**Over 90 days**	Over 180 days

The risk classification of loans and advances are as follows:

	2008 **AED'000**	2007 AED'000
Performing loans	**104,615,487**	75,635,272
Other loans exceptionally monitored	**5,195,330**	135,352
Non performing loans	**1,260,283**	1,055,415
	111,071,100	76,826,039
Less: Allowance for impairment	**(2,258,130)**	(1,149,957)
	108,812,970	75,676,082

Loans and advances include an interest free loan to the Government of Abu Dhabi ("Government") of AED 545,400 thousand (2007 – AED 609,480 thousand). This loan arose as a result of the Government acquiring certain non-performing loans in the previous years which were previously indemnified by the Government through a guarantee. The Bank has an equal amount of long term deposit against the interest free loan to Government (Note 16).

Collaterals

The Bank holds collaterals against loans and advances in the form of mortgage interests over properties, vehicles and machineries, cash margins, fixed deposits, guarantees and others. The Bank accepts guarantees mainly from well reputed local or international banks, well established local or multinational corporates and high net-worth private individuals. Management is currently in the process of estimating the fair value of these collaterals. The carrying value of these collaterals at December 31, 2008 approximates to AED 77,922,451 thousand (2007 - AED 55,015,564 thousand).

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

8 Loans and advances, net (continued)

Movement of the individual and collective impairment allowance on loans and advances is as follows:

	2008			2007		
	Individual impairment AED'000	**Collective impairment AED'000**	**Total AED'000**	Individual Impairment AED'000	Collective impairment AED'000	Total AED'000
At January 1	**716,492**	**433,465**	**1,149,957**	659,229	323,653	982,882
Charge for the year	**292,079**	**1,086,280**	**1,378,359**	177,861	117,439	295,300
Recoveries	**(176,282)**	**-**	**(176,282)**	(151,937)	-	(151,937)
Net amounts written back/(off)	**105,193**	**(191,921)**	**(86,728)**	27,160	(7,855)	19,305
Currency translation	**(6,743)**	**(433)**	**(7,176)**	4,179	228	4,407
At December 31	**930,739**	**1,327,391**	**2,258,130**	716,492	433,465	1,149,957

Collective impairment allowance charge for the year includes an amount of AED 443,637 thousand (Note 34) towards credit default swaps.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

8 Loans and advances, net (continued)

The economic sector composition of the loans and advances portfolio net of interest in suspense is as follows:

	2008			2007		
	Within the U.A.E. AED'000	**Outside the U.A.E. AED'000**	**Total AED'000**	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000
Economic sector						
Agriculture	**13,743**	**-**	**13,743**	14,563	-	14,563
Energy	**505,545**	**181,377**	**686,922**	215,039	701,989	917,028
Trading	**2,198,587**	**-**	**2,198,587**	2,165,285	17,662	2,182,947
Contractor finance	**4,115,205**	**165,285**	**4,280,490**	3,501,241	183,011	3,684,252
Development & construction	**16,189,232**	**-**	**16,189,232**	9,220,774	-	9,220,774
Real Estate investment	**6,785,561**	**-**	**6,785,561**	7,514,026	-	7,514,026
Transport	**3,713,724**	**104,270**	**3,817,994**	1,271,095	1,286,206	2,557,301
Personal	**8,105,591**	**1,617**	**8,107,208**	3,248,275	965,455	4,213,730
Personal – Retail loans	**14,331,441**	**-**	**14,331,441**	7,489,191	6,660	7,495,851
Personal – Loans against securities trading	**14,427,247**	**-**	**14,427,247**	10,479,289	-	10,479,289
Government	**3,137,112**	**-**	**3,137,112**	1,735,910	-	1,735,910
Financial institutions	**12,203,923**	**1,336,473**	**13,540,396**	10,170,348	2,111,759	12,282,107
Manufacturing	**1,705,157**	**206,382**	**1,911,539**	1,441,070	1,147,421	2,588,491
Services	**17,939,048**	**2,944,920**	**20,883,968**	8,206,479	3,120,556	11,327,035
Others	**722,930**	**36,730**	**759,660**	576,005	36,730	612,735
	106,094,046	**4,977,054**	**111,071,100**	67,248,590	9,577,449	76,826,039
Less: Impairment allowance			**(2,258,130)**			(1,149,957)
Total			**108,812,970**			75,676,082

9 Derivative financial instruments

In the ordinary course of business the Bank enters into various types of derivative transactions that involve variables in the underlyings. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index. Derivative financial instruments, which the Bank enters into includes forwards, options, futures and swaps.

The Bank uses the following derivative financial instruments for both hedging and non-hedging purposes.

9 Derivative financial instruments (continued)

Forward currency transactions

Currency forwards represent commitments to purchase foreign and domestic currencies, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Swap transactions

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps). No exchange of principal takes place, except for certain cross currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Option transactions

Foreign currency and Interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Bank and a customer over the counter (OTC).

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

9 Derivative financial instruments (continued)

The fair values of derivative financial instruments held are set out below.

	Fair values	
	Assets AED'000	**Liabilities AED'000**
At December 31, 2008		
Derivatives held for trading		
Forward foreign exchange contracts	**1,036,452**	**1,044,644**
Interest rate swaps and forward rate agreements	**3,743,250**	**3,812,645**
Options	**457,996**	**442,632**
Futures	**13,224**	**11,773**
Commodity forwards	**558,356**	**534,015**
Energy swaps	**393,408**	**392,991**
	6,202,686	**6,238,700**
Derivatives held for hedging	**-**	**125,266**
	6,202,686	**6,363,966**

	Fair values	
	Assets AED'000	**Liabilities AED'000**
At December 31, 2007		
Derivatives held for trading		
Forward foreign exchange contracts	126,498	171,556
Interest rate swaps and forward rate agreements	1,599,877	1,641,097
Options	414,199	387,675
Futures	1,826	1,216
Commodity forwards	228,794	206,477
Energy swaps	5,248	5,248
	2,376,442	2,413,269
Derivatives held for hedging	691,800	-
	3,068,242	2,413,269

The derivatives held for hedging consist of interest rate swaps and cross currency swaps. These derivatives are treated as fair value hedges.

9 Derivative financial instruments (continued)

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. The Bank enters into derivative contracts with financial institutions and corporates which are of good credit rating.

Derivatives held or issued for trading purposes

The Bank's trading activities mostly relate to offering hedging solutions to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks. The Bank also manages risk taken as a result of client transactions or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices.

Derivatives held or issued for hedging purposes

The Bank uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange and interest rates. The Bank uses forward foreign exchange contracts, cross currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. The Bank also uses interest rate swaps to hedge against the fair value risks arising on certain fixed rate financial instruments. In all such cases the hedging relationship and objectives, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

10 Investment securities

	2008			
	U.A.E. AED'000	**Other G.C.C. countries AED'000**	**Rest of the world AED'000**	**Total AED'000**
Available for sale investments				
Quoted:				
Floating rate notes (FRNs)	-	-	170,746	170,746
Collateralised debt obligations (CDOs)	-	-	575,007	575,007
Impairment allowance	-	-	(385,395)	(385,395)
Sub total	-	-	360,358	360,358
Equity instruments	89,620	-	326	89,946
Bonds	984,501	107,839	-	1,092,340
Mutual funds	71,283	-	-	71,283
Government securities	-	-	281,509	281,509
Total Quoted	1,145,404	107,839	642,193	1,895,436
Unquoted:				
Floating rate notes (FRNs)	-	-	165,285	165,285
Equity instruments	352,795	-	94	352,889
Impairment allowance	(10,309)	-	(14,905)	(25,214)
Sub total	342,486	-	150,474	492,960
Bonds	1,034,341	-	-	1,034,341
Mutual funds	-	-	57	57
Total Unquoted	1,376,827	-	150,531	1,527,358
Total Available for sale investments	2,522,231	107,839	792,724	3,422,794

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

10 Investment securities (continued)

	2007			
	U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
Available for sale investments				
Quoted:				
Floating rate notes (FRNs)	-	-	568,142	568,142
Collateralised debt obligations (CDOs)	-	-	649,720	649,720
Impairment allowance	-	-	(315,882)	(315,882)
Sub total	-	-	901,980	901,980
Equity instruments	128,055	-	344	128,399
Bonds	1,141,626	95,534	-	1,237,160
Mutual funds	-	-	26,599	26,599
Government securities	-	-	174,207	174,207
Total Quoted	1,269,681	95,534	1,103,130	2,468,345
Unquoted:				
Floating rate notes (FRNs)	-	-	180,205	180,205
Collateralised debt obligations (CDOs)	-	-	36,730	36,730
Impairment allowance	-	-	(62,630)	(62,630)
Sub total	-	-	154,305	154,305
Equity instruments	246,286	-	-	246,286
Others	30,625	-	-	30,625
Total Unquoted	276,911	-	154,305	431,216
Total Available for sale investments	1,546,592	95,534	1,257,435	2,899,561
Held to maturity : Quoted				
Floating rate notes (FRNs)	-	-	183,650	183,650
Impairment allowance	-	-	(115,023)	(115,023)
	-	-	68,627	68,627
Total investment securities	1,546,592	95,534	1,326,062	2,968,188

The fair value of held to maturity investments at December 31, 2007 approximates its carrying value less impairment allowance.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

10 Investment securities (continued)

The movement in investment securities for the year 2008 is as follows:

	Available for sale AED'000	**Held to maturity AED'000**	**Total AED'000**
Fair value at January 1, 2008	**2,899,561**	**68,627**	**2,968,188**
Additions	**2,477,760**	**-**	**2,477,760**
Disposals and fair value adjustments	**(1,671,989)**	**(53,887)**	**(1,725,876)**
Investments written off during the year	**-**	**(14,740)**	**(14,740)**
Impairment allowance	**(282,538)**	**-**	**(282,538)**
Fair value at December 31, 2008	**3,422,794**	**-**	**3,422,794**

The movement in investment securities for the year 2007 is as follows:

	Available for sale AED'000	Held to maturity AED'000	Total AED'000
Fair value at January 1, 2007	3,438,634	262,110	3,700,744
Additions	1,141,500	-	1,141,500
Disposals and fair value adjustments	(1,302,061)	(78,460)	(1,380,521)
Impairment allowance	(378,512)	(115,023)	(493,535)
Fair value at December 31, 2007	2,899,561	68,627	2,968,188

The movement in impairment allowance is as follows:

	2008 AED'000	2007 AED'000
Balance at January 1	**493,535**	-
Provided on Available for sale investments	**296,070**	378,512
Provided on Held to maturity investments	**-**	115,023
Reversed on disposal of Available for sale investments	**(13,532)**	-
Investments written off	**(365,464)**	-
Balance at December 31	**410,609**	493,535

10 Investment securities (continued)

The investment securities include Structured Finance Assets, such as Collateralized Debt Obligations (CDOs), and Cashflow CDOs which are dependent on the performance of collateral located outside U.A.E., primarily investment grade corporate credit assets in the U.S.A. and Western Europe.

As at December 31, 2008, the nominal value and fair value of these securities amounted to AED 1,243,259 thousand and AED 911,038 thousand respectively. These securities have been negatively impacted by the global financial crisis that stemmed from the U.S.A. subprime situation, recent corporate credit events in both the U.S.A. and Europe, negative market sentiment which significantly widened credit default spreads and re-priced credit risk, as well as ongoing liquidity shortages. As a result, the Bank has made collective impairment allowance amounting to AED 400,300 thousand against the total above exposure.

The impairment allowance have been estimated by the Banks' management based on the present market and the expected economic conditions of the underlying investments.

The Bank has appointed two independent advisors "Prytania" and "BlackRock" to act as asset managers and advisors to the portfolio of structured investments. In addition, during the year, the Bank contracted for a full documentation and structure review of all these assets.

These independent advisors advise in the timely restructuring of some exposures and on divestments and provide the assessments of the realisable economic value of these securities.

The independent advisors have used a combination of quantitative and qualitative approaches to assess the economic value and potential expected losses, if any, on investment securities. Evaluation models use several scenario runs with varying assumptions on price volatility and varying magnitudes of economic downturns. Models also vary collateral assumptions based on shifting risk elements to assess the potential severity of loss on the underlying portfolio. Loss breakpoints for particular tranches of risk represented by individual investments are also assessed under different scenarios.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

10 Investment securities (continued)

The specification of models, the valuation fields and inputs used in assessments of economic value are adjusted for market dynamics according to the underlying asset class and nature of the collateral supporting the investments. Parameters for loan-backed transactions including material movements in loan prices on a weekly basis greater than a specified amount or a specified percent are captured to recalibrate values, such as a loan that has gone below the 25th percentile within all the loan prices across its industry. In addition, parameter measures specific for CDO structures include proximity to coverage tests, assessments for underlying collateral that either a particular position has (i) increased the percentage of loans in stress (60 +/- day delinquencies, foreclosure, credit default swaps movements) by a specified amount or (ii) reached a threshold level of stress. Additional quantitative analysis include cash flow modelling, predicting the probability of any diversion test (over-collateralization or interest-coverage) being breached.

Other qualitative measures include the potential implications of rating changes, such as forced triggers, on the investments, as well as rating changes on assets in the underlying portfolio.

The maximum exposure to credit risk on investment securities is limited to the carrying value of these investments. The Bank monitors the credit ratings of the counterparties with whom the investments are placed on a regular basis.

11 Investments in associates

Name of associate	**2008 AED'000**	2007 AED'000
RHB Capital Berhad	**4,327,529**	-
Abu Dhabi Finance P.J.S.C.	**100,000**	-
Carrying value at December 31	**4,427,529**	-

Details of Bank's investment in associates are as follows:

	Name of associate	**Principal activities**	**Country of incorporation**	**Ownership Interest**
(a)	RHB Capital Berhad	Wholesale, retail and islamic banking, financial advisory and underwriting, insurance and property investment.	Malaysia	25%
(b)	Abu Dhabi Finance P.J.S.C.	Mortgage finance.	U.A.E.	20%

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

11 Investment in associates (continued)

(a) On May 14, 2008 the Bank acquired through its wholly owned subsidiary ADCB Holdings (Malaysia) Sdn Berhad a 25% equity stake in RHB Capital Berhard, Malaysia ("Associate").

The cost of acquisition over the Bank's share of the net fair value of the identifiable assets and liabilities of the Associate recognised at the date of the acquisition amounting to AED 2,048,390 thousand was identified as goodwill and included in the carrying value of investment in associate. Management has assessed the total carrying value of investment in associate for impairment as detailed in Note 4.4 and determined that no impairment losses are required in the current year.

The equity instruments of RHB Capital Berhad are quoted in Bursa Stock Exchange, Malaysia and the quoted value of the investment at December 31, 2008 amounted to AED 2,233,736 thousand.

The Bank's share of profit of associate was appropriately adjusted for the differences arising on conversion from Malaysian Accounting Standards to IFRS.

(b) During the year, the Bank contributed to the extent of 20% of equity in Abu Dhabi Finance P.J.S.C., United Arab Emirates ("Associate").

The latest publicly available financial information in respect of Bank's associates are as of September 30, 2008 and summarised as follows:

	AED'000
Total assets	**111,394,998**
Total liabilities	**103,359,124**
Net assets	**8,035,874**
Total interest and other operating income	**4,778,119**
Total profit for the period	**907,543**

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

12 Investment properties

	2008 AED'000	2007 AED'000
At January 1	**445,730**	-
Additions	**-**	90,076
Transfer in from property and equipment, net	**8,614**	60,293
Increase in fair value of investment properties	**178,148**	295,361
At December 31	**632,492**	445,730

The fair value of the Bank's investment properties has been arrived at on the basis of valuations carried out by independent valuers that are not related to the Bank. The fair value of investment properties is estimated periodically by considering recent prices for similar properties in the same location and similar conditions, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at these prices. The effective date of the valuation is December 31, 2008. All the investment properties of the Bank are located within the U.A.E.

13 Other assets

	2008 AED'000	2007 AED'000
Interest receivable	**775,711**	664,718
Withholding taxation	**17,591**	37,937
Advance paid for purchase of investment	**-**	93,662
Prepayments	**145,437**	126,867
Clearing receivables	**70,562**	180,448
Acceptances	**887,669**	493,120
Others	**313,152**	155,969
	2,210,122	1,752,721

Acceptances arise when the Bank guarantees payments against documents drawn under the letters of credit.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

14 Property and equipment, net

	Freehold properties AED'000	Leasehold properties AED'000	Furniture, equipment and vehicles AED'000	Computer equipment and accessories AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation						
At January 1, 2007	442,326	30,940	79,093	171,520	43,348	767,227
Exchange difference	-	593	751	50	-	1,394
Additions during the year	20,328	668	4,394	6,444	61,192	93,026
Transfers	15,855	24,935	8,822	13,158	(62,770)	-
Transfer to expenses	-	-	-	-	(2,511)	(2,511)
Transfer to investment properties	(64,833)	-	-	-	-	(64,833)
Disposals	(500)	-	-	-	-	(500)
At January 1, 2008	**413,176**	**57,136**	**93,060**	**191,172**	**39,259**	**793,803**
Exchange difference	(1,040)	-	(934)	(79)	-	(2,053)
Additions during the year	1,367	317	11,651	3,515	140,313	157,163
Transfers	6,148	8,054	9,636	28,712	(52,550)	-
Transfer to expenses	-	-	-	-	(2,365)	(2,365)
Transfer to investment properties	(24,821)	-	-	-	-	(24,821)
At December 31, 2008	**394,830**	**65,507**	**113,413**	**223,320**	**124,657**	**921,727**
Accumulated depreciation						
At January 1, 2007	115,975	14,499	51,313	73,416	-	255,203
Exchange difference	-	22	674	37	-	733
Charge for the year	17,633	3,111	9,341	20,167	-	50,252
Transfers	(4,540)	-	-	-	-	(4,540)
Eliminated on disposals	(346)	-	-	-	-	(346)
At January 1, 2008	**128,722**	**17,632**	**61,328**	**93,620**	**-**	**301,302**
Exchange difference	(11)	-	(825)	(48)	-	(884)
Charge for the year	14,970	5,585	12,080	24,695	-	57,330
Transfer to investment properties	(16,207)	-	-	-	-	(16,207)
At December 31, 2008	**127,474**	**23,217**	**72,583**	**118,267**	**-**	**341,541**
Carrying amount						
At December 31, 2008	**267,356**	**42,290**	**40,830**	**105,053**	**124,657**	**580,186**
At December 31, 2007	284,454	39,504	31,732	97,552	39,259	492,501

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

15 Due to banks

	2008 AED'000	2007 AED'000
Current and demand deposits	**998,342**	227,825
Deposits - banks	**5,906,921**	5,370,551
	6,905,263	5,598,376

16 Customers' deposits

	2008 AED'000	2007 AED'000
By category :		
Call and demand deposits	**14,653,828**	13,347,838
Savings deposits	**1,230,648**	1,114,235
Time deposits	**64,438,702**	38,866,846
Long term government deposits (Note 8)	**545,400**	609,480
Islamic product related deposits	**2,115,062**	-
Euro commercial papers	**1,377,181**	3,222,421
	84,360,821	57,160,820
By sector :		
Retail	**15,489,461**	17,755,863
Corporate	**38,690,102**	25,298,035
Government	**30,181,258**	14,106,922
	84,360,821	57,160,820

The Euro commercial papers are issued globally with the majority issued in the United Kingdom and other countries of Europe.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

16 Customers' deposits (continued)

Islamic related product deposits include the following:

	2008 AED'000	2007 AED'000
Product		
Mudaraba savings and deposits	**158,697**	-
Wakala deposits	**1,937,984**	-
Wadiah	**18,381**	-
	2,115,062	-

Profit distributed to Wakala deposit holders during the year amounted to AED 27,865 thousand (2007 – Nil).

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

17 Mandatory convertible securities

During the year, the Bank issued mandatory convertible securities ("MCS") with nominal value amounting to AED 4,800,000 thousand that are convertible into new ordinary registered shares at the end of the third year from the date of issue. The U.A.E. Central Bank approved that the MCS can be considered for Tier 1 Capital adequacy regulation requirements and accordingly included in capital adequacy computation (Note 45). Interest is payable at EIBOR plus 1.5 per cent per annum on a quarterly basis, in arrears, up and until the conversion date.

The proceeds received from issue of MCS have been split between a liability component arising from interest payments and an equity component, representing the residual attributable to the future delivery of the equity of the Bank, as follows:

	2008 **AED'000**
Proceeds of issue	**4,800,000**
Issue costs	**(21,635)**
Net proceeds received	**4,778,365**
Liability component on initial recognition	**(144,482)**
Equity component on initial recognition	**4,633,883**
Liability component at initial recognition	**144,482**
Interest expense for the year	**168,106**
Interest paid during the year	**(144,153)**
	168,435

The interest charged for the year is calculated by applying an effective interest rate of 7.80% p.a. The liability component is measured at amortised cost.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

18 Short and medium term borrowings

The details of short and medium term borrowings as at December 31, 2008 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	Over 3 years AED'000	Total AED'000
Unsecured notes	**Australian Dollar (AUD)**	**-**	**-**	**126,489**	**126,489**
	Euro (EUR)	**256,366**	**-**	**-**	**256,366**
	Hong Kong Dollar (HKD)	**-**	**47,394**	**94,787**	**142,181**
	Japanese Yen (JPY)	**-**	**202,917**	**-**	**202,917**
	Pound Sterling (GBP)	**-**	**2,677,158**	**-**	**2,677,158**
	Slovak Koruna (SKK)	**-**	**-**	**127,629**	**127,629**
	South African Rand (ZAR)	**-**	**-**	**39,083**	**39,083**
	Swiss Franc (CHF)	**-**	**1,550,225**	**-**	**1,550,225**
	Singapore Dollar (SGD)	**-**	**369,749**	**-**	**369,749**
	Turkish Lira (TRL)	**-**	**-**	**88,527**	**88,527**
	UAE Dirham (AED)	**4,160,000**	**-**	**1,753,000**	**5,913,000**
	US Dollar (US$)	**238,745**	**3,783,190**	**73,460**	**4,095,395**
		4,655,111	**8,630,633**	**2,302,975**	**15,588,719**
Syndicated loans	**US Dollar (US$)**	**1,819,972**	**3,474,658**	**6,978,700**	**12,273,330**
	Euro (EUR)	**820,372**	**-**	**-**	**820,372**
Subordinated floating rate notes	**US Dollar (US$)**	**-**	**-**	**1,469,200**	**1,469,200**
		7,295,455	**12,105,291**	**10,750,875**	**30,151,621**
Fair value adjustment of cross currency swap					**414,927**
					30,566,548

Included in short and medium term borrowings is a carrying amount of AED 8,280,246 thousand (2007 – AED 7,380,698 thousand) which has been hedged using cross currency swaps.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

18 Short and medium term borrowings (continued)

The details of short and medium term borrowings as at December 31, 2007 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	Over 3 years AED'000	Total AED'000
Unsecured notes	Australian Dollar (AUD)	145,732	-	161,924	307,656
	Euro (EUR)	-	270,829	-	270,829
	Hong Kong Dollar (HKD)	47,083	-	141,249	188,332
	Japanese Yen (JPY)	-	-	164,113	164,113
	New Zealand Dollar (NZD)	42,751	-	-	42,751
	Pound Sterling (GBP)	-	-	3,669,970	3,669,970
	Slovak Koruna (SKK)	-	-	120,828	120,828
	South African Rand (ZAR)	-	-	53,985	53,985
	Swiss Franc (CHF)	170,046	490,518	981,037	1,641,601
	Turkish Lira (TRL)	-	-	116,665	116,665
	UAE Dirham (AED)	1,200,000	2,765,000	1,753,000	5,718,000
	US Dollar (US$)	183,650	3,985,205	36,730	4,205,585
		1,789,262	7,511,552	7,199,501	16,500,315
Syndicated loan	US Dollar (US$)	-	3,673,000	5,509,500	9,182,500
Subordinated floating rate notes	US Dollar (US$)	-	-	1,469,200	1,469,200
		1,789,262	11,184,552	14,178,201	27,152,015
Fair value adjustment of cross currency swap					218,249
					27,370,264

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

18 Short and medium term borrowings (continued)

Interest on unsecured notes are payable quarterly in arrears and the coupon rates at 31 December 2008 are as follows:

Currency	Within 1 year	1-3 years	Over 3 years
AUD	-	-	3 months AUD-BBSW plus 30 basis points
EUR	3 months EURIBOR plus 12 basis points	-	-
HKD	-	3 months HIBOR offer rate plus 35 basis points	3 months HIBOR offer rate plus 29 basis points
JPY	-	Fixed rate of 1.66% p.a.	-
GBP	-	Fixed rate of 5.625% p.a.	-
SKK	-	-	3 months BRIBOR plus 11 basis points
ZAR	-	-	3 months JIBAR plus 41 basis points
CHF	-	3 months LIBOR plus 10 basis points & Fixed rate of 2.76% p.a	-
SGD	-	Fixed rate of 4.08% p.a	-
TRY	-	-	Fixed rate of 12.75% p.a.
AED	3 months EIBOR plus 0 to 52 basis points & 6 months EIBOR plus 8 basis points	-	Fixed rate of 6% p.a.
US$	3 months LIBOR plus 24 to 30 basis points	Fixed rate of 5.25% p.a. & 3 months LIBOR plus 30 to 35 basis points	Fixed rate of 5.3875% p.a

Interest on the syndicated loans are payable in monthly coupons in arrears with 25 basis points to 27.5 basis points over 1 month LIBOR, quarterly coupons in arrears with 27.5 basis points to 110 basis points over 3 months LIBOR and yearly coupons in arrears with 115 basis points over 12 months EURIBOR. The Bank has option to roll over the syndicated loan for a further period of two years from the date of maturity. Interest on the subordinated floating rate notes is payable quarterly in arrears at a coupon rate of 60 basis points over 3 month LIBOR.

The subordinated floating rate notes were obtained from financial institutions outside of the U.A.E. and qualify as Tier 2 subordinated loan capital for the first 5 year period till 2011 and thereafter it will be amortised at the rate of 20% per annum till 2016 for capital adequacy calculation (Note 45) if these are not redeemed during 2011. This has been approved by the Central Bank of the United Arab Emirates.

The Bank also has an unsecured standby facility of US$ 175,000 thousand (December 31, 2007 – US$ 850,000 thousand) from a consortium of banks with a drawdown period of one year.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

19 Other liabilities

	2008 **AED'000**	2007 AED'000
Interest payable	**673,782**	547,742
Employees' end of service benefits	**109,906**	67,610
Accounts payable and other creditors	**503,968**	77,143
Clearing payables	**271,194**	347,627
Deferred income	**108,863**	104,123
Acceptances	**887,669**	493,120
Others	**892,643**	622,012
	3,448,025	2,259,377

Acceptances arise when the Bank guarantees payments against documents drawn under the letters of credit.

20 Share capital

	Authorised	**Issued and fully paid**	
		2008	2007
	AED'000	**AED'000**	AED'000
Ordinary shares of AED 1 each	**4,810,000**	**4,810,000**	4,000,000

	2008		2007	
	Number of shares	**AED'000**	Number of shares	AED'000
As of January 1	**4,000,000,000**	**4,000,000**	4,000,000,000	4,000,000
Bonus shares issued during the year	**810,000,000**	**810,000**	-	-
As of December 31	**4,810,000,000**	**4,810,000**	4,000,000,000	4,000,000

During 2006, Abu Dhabi Investment Authority's holding of 64.841% of the Bank's issued and fully paid up share capital was transferred to Abu Dhabi Investment Council by Law No.16 of 2006. The shareholders of the Bank approved this share transfer at the extra ordinary general assembly meeting of the Bank held on March 18, 2007.

The shareholders in the Annual General Meeting held on April 21, 2008, approved the proposed distribution of dividends for the year 2007 amounting to AED 1,210,000 thousand made up of AED 400,000 thousand (representing 10% of capital) in cash and AED 810,000 thousand representing 20.25% of the paid up capital) in the form of bonus shares.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

21 Statutory and other reserves

Statutory reserve

As required by Article 82 of Union Law No 10 of 1980, 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. The statutory reserve is not available for distribution.

Legal reserve

In accordance with the U.A.E. Federal Commercial Companies Law No. 8 of 1984 (as amended) and Article 84 of the Memorandum and Articles of Association of the Bank, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. The legal reserve is not available for distribution.

General reserve

In accordance with Article 84 of the Memorandum and Articles of Association of the Bank, a further percentage of net profit for the year is transferred to the general reserve based on the recommendation of the Board of Directors. The Bank may resolve to discontinue such annual transfers when the reserve equals 25% of the nominal value of the paid up share capital. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

Contingency reserve

The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.

22 Employees' incentive plan shares

During the year, the Bank established an Employee Long Term Incentive Plan (the "Plan") to recognise and retain good performing key management employees. Under the Plan, the employees will be granted shares of the Bank which are purchased at a price defined in the Plan and held by ACB LTIP (IOM) Limited, a consolidated entity, until vesting date. The granted shares vest over a period of 3 years that starts on the grant date.

Under the above plan, the Bank granted its key management employees shares with a fair value of AED 38,131 thousand as at the grant date, which is recognised in the consolidated income statement on a straight line basis over the 3 years vesting period.

23 Proposed dividends

For the year ended December 31, 2008, the Board of Directors have proposed to pay cash dividends of AED 481,000 thousand representing 10% of the paid up capital (2007 : cash dividends of AED 400,000 thousand and bonus shares of AED 810,000 thousand representing 10% and 20.25% of the paid up capital respectively). This is subject to the approval of the shareholders in the Annual General Meeting.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

24 Interest income

	2008 AED'000	2007 AED'000
Loans and advances to banks	**608,279**	960,059
Loans and advances to customers	**5,194,926**	4,824,081
Investment securities	**142,705**	208,084
	5,945,910	5,992,224

In 2007, interest income from investment securities included an amount of AED 13,086 thousand generated from Held to Maturity investments which are carried at amortised cost. No such income was included in 2008 as these investments were either disposed of or written off during the year.

25 Interest expense

	2008 AED'000	2007 AED'000
Deposits from banks	**279,612**	372,426
Deposits from customers	**1,820,881**	2,059,636
Debt securities issued and subordinated liabilities	**1,168,835**	1,271,747
Interest on mandatory convertible securities	**168,106**	-
	3,437,434	3,703,809

26 Net fee and commission income

	2008 AED'000	2007 AED'000
Fee and commission income		
Retail banking fee	**462,649**	310,995
Corporate banking fee	**320,468**	354,229
Investment banking fee	**170,141**	96,214
Brokerage fee	**31,109**	37,612
Fees from trust and other fiduciary activities	**52,589**	83,236
Other fee	**17,579**	15,676
Total fee and commission income	**1,054,535**	897,962
Fee and commission expenses	**(72,441)**	(24,002)
Net fee and commission income	**982,094**	873,960

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

27 Net gains from dealing in foreign currencies

Net gains from dealing in foreign currencies include net trading income, gains and losses from spot and forward contracts, options, futures, and exchange differences arising on translation of monetary foreign currency assets and liabilities of the Bank.

28 Net gain from trading and investment securities

	2008 AED'000	2007 AED'000
(Loss)/gain from trading securities	**(10,687)**	45,295
Gain from sale of available for sale investments	**89,252**	60,161
	78,565	105,456

29 Impairment allowance on financial assets

	2008 AED'000	2007 AED'000
Impairment allowance on doubtful loans and advances, net of recoveries (Note 8)	**758,440**	143,363
Impairment allowance on investment securities (Note 10)	**296,070**	493,535
Impairment allowance on credit default swaps (Note 8)	**443,637**	66,060
	1,498,147	702,958

30 Earnings per share

Basic and Diluted

Basic earnings per share is calculated by dividing the net profit for the year attributable to the equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

30 Earnings per share (continued)

	2008	2007
Net profit for year attributable to the equity holders of the Bank (AED'000) (a)	**1,236,592**	1,987,518
Weighted average number of shares in issue throughout the year (000's)	**4,810,000**	4,810,000
Less: Weighted average number of shares resulting from Employees' incentive share plan	**(1,018)**	-
Weighted average number of equity shares in issue during the year (000's) (b)	**4,808,982**	4,810,000
Basic and Diluted earnings per share (AED) (a)/(b)	**0.26**	0.41

The potential conversion of mandatory convertible securities (Note 17) to ordinary shares would increase the Bank's earnings per share for the year. Accordingly, the mandatory convertible securities were not included in the calculation of diluted earnings per share because they are anti-dilutive for the year.

31 Taxation

Taxation resulting from Indian branches' operations and overseas subsidiaries is calculated as per the taxation laws applicable in India and respective overseas subsidiaries.

32 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flow comprise the following balance sheet amounts:

	2008 AED'000	2007 AED'000
Cash and balances with Central Banks	**3,911,009**	15,657,588
Deposits and balances due from banks	**17,528,422**	6,030,364
Due to banks	**(6,905,263)**	(5,598,376)
	14,534,168	16,089,576
Less: Deposits and balances due from banks and cash and balances with Central Banks – maturity more than 3 months	**(488,168)**	(740,073)
Add: Due to banks – maturity more than 3 months	**1,098,109**	2,502,386
	15,144,109	17,851,889

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

33 Related party transactions

The Bank enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

The related parties balances included in the consolidated balance sheet are as follows:

	2008	2007
	AED'000	AED'000
Loans and advances :		
To Directors	**116,697**	106,035
To Key Managers	**36,018**	10,886
	152,715	116,921
Customers' deposits :		
From Directors	**14,291**	18,077
From Major Shareholders	**6,611,400**	4,497,667
From Key Managers	**8,345**	6,863
	6,634,036	4,522,607
Mandatory convertible securities :		
From Major Shareholders	**800,000**	-
Investments in funds managed by the Bank – at fair values:		
Held for trading securities	**-**	122,278
Available for sale investments	**71,283**	30,625
	71,283	152,903
Irrevocable commitments and contingencies:		
To Directors	**62,276**	76,291

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

33 Related party transactions (continued)

Significant transactions with related parties during the year are as follows:

	2008 AED'000	2007 AED'000
Interest, fee and commission income:		
- Directors	**1,702**	2,775
- Key Managers	**588**	128
- Trust activities	**126,376**	70,407
- Gain on disposal of available for sale investments	**-**	26,585
	128,666	99,895
Interest expense:		
- Directors	**229**	404
- Major Shareholders	**66,729**	166,151
- Key Managers	**84**	12
	67,042	166,567

Remuneration of key management staff during the year was as follows:

	2008 AED'000	2007 AED'000
Short term benefits	**50,675**	36,102

Remuneration of Directors is accrued and paid as an appropriation from the net profit of the year in accordance with the Federal Law No. 8 applicable to Commercial Companies operating in the U.A.E. This amount is included in the short term benefits shown above.

34 Commitments and contingent liabilities

The Bank had the following commitments and contingent liabilities at December 31:

	2008 AED'000	2007 AED'000
Commitments on behalf of customers		
Letters of credit	**8,682,852**	5,893,930
Guarantees	**15,989,632**	14,760,040
Commitments to extend credit – Revocable	**6,144,487**	10,512,268
Commitments to extend credit – Irrevocable	**18,324,032**	21,066,159
Credit default swaps	**2,395,094**	3,221,685
	51,536,097	55,454,082
Others		
Commitments for future capital expenditure	**505,590**	56,980
Commitments to invest in investment securities	**119,579**	93,580
	52,161,266	55,604,642

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, and guarantees which are designed to meet the requirements of the Bank's customers.

Commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. These contracts would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at floating rates.

Credit default swap means a security with a risk level and pricing based on the risk of credit default by one or more underlying security issuers. Credit default contracts include credit default swaps, credit default index contracts, credit default options and credit default basket options. Credit default contracts are also used as part of the mechanism behind many collateralised debt obligations; in these cases, the contracts may have unique covenants that exclude company events, such as a debt restructuring as a "credit event".

The Bank's total exposure in credit default swaps net of provisions amounted to AED 2,395,094 thousand. During the year, an amount of AED 443,637 thousand (Note 8) has been provided (2007 – AED 66,060 thousand) towards expected calls against impaired credit default swaps based on the independent advisors' reports and recommendations as discussed in Note 10.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

35 Segmental information

Primary segment information

For operating purposes, the Bank is organised into two major business segments: (i) Commercial Banking, which principally provides loans and other credit facilities, deposits and current accounts for the Bank's customers, brokerage and fund managing activities and (ii) Investment Banking, which involves the management of the Bank's investment portfolio, dealing in derivatives and treasury activities. These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds.

Segmental information for the year was as follows:

	Commercial Banking		**Investment Banking**		**Total**	
	2008	2007	**2008**	2007	**2008**	2007
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Operating income	**3,990,443**	3,320,481	**427,721**	479,393	**4,418,164**	3,799,874
Segment result and profit from operations	**1,885,205**	2,214,145	**(490,349)**	(125,859)	**1,394,856**	2,088,286
Minority interest	**-**	-	**(121,881)**	(97,412)	**(121,881)**	(97,412)
Net profit before distribution to depositors and income tax	**1,885,205**	2,214,145	**(612,230)**	(223,271)	**1,272,975**	1,990,874
Distribution to depositors	**(27,865)**	-	**-**	-	**(27,865)**	-
Net profit before income tax	**1,857,340**	2,214,145	**(612,230)**	(223,271)	**1,245,110**	1,990,874
Income tax expense unallocated					**(8,518)**	(3,356)
Net profit/(loss) for the year					**1,236,592**	1,987,518
Other information						
Segment assets	**110,616,779**	77,875,154	**37,111,431**	28,338,695	**147,728,210**	106,213,849
Segment liabilities	**100,066,856**	66,331,380	**31,746,202**	28,470,726	**131,813,058**	94,802,106
Equity					**15,915,152**	11,411,743
Total liabilities and equity					**147,728,210**	106,213,849
Capital expenditure incurred during the year, net	**154,560**	90,253	**238**	262	**154,798**	90,515
Depreciation expense during the year	**53,195**	45,884	**4,135**	4,368	**57,330**	50,252

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

35 Segmental information (continued)

Secondary segment information

Although the Bank is organised primarily into business segments, the Bank operates in other geographic markets. The United Arab Emirates, which is designated as Domestic, represents the operations of the Bank which originate from the U.A.E. branches, and International which represents the operations of the Bank which originate from its branches in India and through its subsidiaries and associate outside the U.A.E. The following table shows the distribution of the Bank's operating income, total assets, total liabilities and capital expenditure by geographical segment.

	Domestic		International		Total	
	2008 AED'000	2007 AED'000	**2008 AED'000**	2007 AED'000	**2008 AED'000**	2007 AED'000
Operating income	**4,349,508**	3,770,430	**68,656**	29,444	**4,418,164**	3,799,874
Profit before distribution to depositors and taxation	**1,336,061**	2,071,750	**58,795**	16,536	**1,394,856**	2,088,286
Distribution to depositors	**(27,865)**	-	**-**	-	**(27,865)**	-
Income tax expense	**-**	-	**(8,518)**	(3,356)	**(8,518)**	(3,356)
Minority interest	**(121,881)**	(97,412)	**-**	-	**(121,881)**	(97,412)
Net profit for the year	**1,186,315**	1,974,338	**50,277**	13,180	**1,236,592**	1,987,518
Segment assets	**142,945,127**	105,691,414	**4,783,083**	522,435	**147,728,210**	106,213,849
Segment liabilities	**126,710,658**	94,295,870	**5,102,400**	506,236	**131,813,058**	94,802,106
Capital expenditure incurred during the year, net	**152,529**	90,291	**2,269**	224	**154,798**	90,515

36 Credit risk frame work, measurement, monitoring and policies

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties and continually assessing the creditworthiness of counterparties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counterparties in appropriate circumstances and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counterparties to mitigate credit risk.

Concentrations of credit risk arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

Management of credit risk

The Bank's credit risk management framework includes:

- Establishment of authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being sanctioned to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of lending and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with the risk management strategy and market trends.

The Risk Management Committee is responsible for sanctioning high value credits and the Credit Policy Committee is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

In addition, the Bank manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Regular audits of business units and the Bank's credit processes are undertaken by the Internal Audit and Compliance Division.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

36 Credit risk frame work, measurement, monitoring and policies (continued)

Management of credit risk (continued)

For details of the composition of the loans and advances portfolio refer to Note 8. Information on credit risk relating to derivative instruments is provided in Note 9.

Credit risk measurement

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data.

The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and banks, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review and are approved by the Board of Directors, when considered necessary. These limits are set with respect to product, country and industry sector.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits. Actual exposures against limits are monitored on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of securities for funds advances, which is a common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

36 Credit risk frame work, measurement, monitoring and policies (continued)

Risk limit control and mitigation policies (continued)

(b) Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. positive fair value of assets), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks arising from the Bank's market transactions on any single day.

(c) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

36 Credit risk frame work, measurement, monitoring and policies (continued)

Risk limit control and mitigation policies (continued)

The Bank's maximum exposure to credit risk excluding collateral and other credit enhancements, was as follows:

	2008			2007		
	Carrying value AED'000	**Off balance sheet items AED'000**	**Maximum credit exposure AED'000**	Carrying value AED'000	Off balance sheet items AED'000	Maximum credit exposure AED'000
Deposits and balances due from banks	**17,528,422**	**-**	**17,528,422**	6,030,364	-	6,030,364
Loans and advances, net	**108,812,970**	**-**	**108,267,570**	75,676,082	-	75,066,602
Investment securities – unquoted, available for sale and held to maturity	**1,527,358**	**119,579**	**1,646,937**	499,843	93,580	593,423
Derivative financial instruments	**6,202,686**	**-**	**6,202,686**	3,068,242	-	3,068,242
Investments in associates	**4,427,529**	**-**	**4,427,529**	-	-	-
Other assets	**2,210,122**	**-**	**2,121,969**	1,752,721	-	1,534,335
Guarantees	**-**	**15,989,632**	**15,638,688**	-	14,760,040	14,418,720
Letters of credit	**-**	**8,682,852**	**8,664,919**	-	5,893,930	5,869,749
Irrevocable commitments to extend credit	**-**	**18,324,032**	**18,324,032**	-	21,066,159	21,066,159
Credit default swaps	**-**	**2,395,094**	**2,395,094**	-	3,221,685	3,221,685
Total	**140,709,087**	**45,511,189**	**185,217,846**	87,027,252	45,035,394	130,869,279

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

37 Concentration of assets, liabilities and off balance sheet items

The distribution of assets, liabilities and off balance sheet items by geographic region and industry sector during the year was as follows:

	2008			2007		
	Assets AED'000	**Liabilities and equity AED'000**	**Off-balance sheet items AED'000**	Assets AED'000	Liabilities and equity AED'000	Off-balance sheet items AED'000
Geographic region						
Domestic (U.A.E.)	**119,549,784**	**97,214,138**	**41,237,010**	91,496,033	67,979,894	44,240,783
Other G.C.C. countries	**6,800,823**	**5,571,332**	**522,572**	4,654,149	4,137,191	2,460,698
Other Arab countries	**621,025**	**297,961**	**55,551**	215,489	512,994	38,659
Asia	**7,474,614**	**1,335,147**	**1,924,896**	3,390,105	947,632	2,071,567
Europe	**10,772,557**	**36,310,351**	**1,693,002**	3,211,082	32,413,998	5,008,896
U.S.A.	**1,551,108**	**2,011,635**	**2,151,793**	785,786	(117,651)	1,450,453
Rest of the world	**958,299**	**4,987,646**	**4,576,442**	2,461,205	339,791	333,586
Total	**147,728,210**	**147,728,210**	**52,161,266**	106,213,849	106,213,849	55,604,642
Industry sector						
Commercial & business	**51,547,264**	**30,943,977**	**34,989,068**	31,108,257	33,411,681	41,959,920
Personal	**36,865,896**	**14,653,680**	**5,877,133**	28,960,312	15,257,406	2,915,572
Public sector	**9,541,626**	**14,441,746**	**1,864,215**	917,028	768,762	106,827
Government	**4,718,135**	**29,086,916**	**411,978**	1,740,981	14,241,482	49,960
Banks and financial institutions	**45,055,289**	**58,601,891**	**9,018,872**	43,487,271	42,534,518	10,572,363
Total	**147,728,210**	**147,728,210**	**52,161,266**	106,213,849	106,213,849	55,604,642

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

38 Interest rate risk framework, measurement and monitoring

Financial assets and liabilities exposed to cash flow interest rate risk are financial assets and financial liabilities with a floating interest rate. A significant portion of the Bank's loans and advances, due from banks, customer deposits, due to banks, short and medium term borrowings and mandatory convertible securities fall under this category.

Financial assets that are not subject to any fair value or cash flow interest rate risk mainly comprise of investments in equity instruments.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The off balance sheet gap represents the net notional amounts of the off balance sheet financial instruments, such as interest rate swaps which are used to manage the interest rate risk.

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Bank manages this risk principally through monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Bank's Treasury, which uses derivative instruments to manage the overall position arising from the Bank's interest bearing financial instruments.

The Bank uses simulation modelling tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by the Asset and Liability Committee (ALCO). Since most of the Bank's financial assets and liabilities are floating rate, deposits and loans generally reprice simultaneously, providing a natural hedge which reduces interest rate exposure. Moreover, majority of the Bank's assets and liabilities reprice within one year, thereby further limiting interest rate risk.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

38 Interest rate risk framework, measurement and monitoring (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2008 was as follows:

	Effective rate	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets								
Cash and balances with Central Banks	0.94%	200,000	50,000	-	-	-	3,661,009	**3,911,009**
Deposits and balances due from banks	2.70%	15,455,037	36,730	8,500	-	23,189	2,004,966	**17,528,422**
Loans and advances, net	5.64%	90,927,860	17,097,601	292,088	2,753,551	-	(2,258,130)	**108,812,970**
Derivative financial instruments	-	3,756,419	942,178	540,499	750,202	213,388	-	**6,202,686**
Investment securities	4.23%	1,973,508	493,577	13,158	428,376	-	514,175	**3,422,794**
Investments in associates	-	-	-	-	-	-	4,427,529	**4,427,529**
Investment properties	-	-	-	-	-	-	632,492	**632,492**
Other assets	-	-	-	-	-	-	2,210,122	**2,210,122**
Property and equipment, net	-	-	-	-	-	-	580,186	**580,186**
Total assets		112,312,824	18,620,086	854,245	3,932,129	236,577	11,772,349	**147,728,210**
Liabilities and equity								
Due to banks	3.07%	5,807,155	760,932	23,959	241,477	71,740	-	**6,905,263**
Customers' deposits	2.79%	71,669,081	7,962,073	4,453,128	273,784	2,755	-	**84,360,821**
Mandatory convertible securities	7.80%	168,435	-	-	-	-	-	**168,435**
Short and medium term borrowings	3.66%	23,632,955	3,021,136	3,497,530	-	-	414,927	**30,566,548**
Derivative financial instruments	-	4,770,139	693,590	40,871	659,553	199,813	-	**6,363,966**
Other liabilities	-	-	-	-	-	-	3,448,025	**3,448,025**
Equity	-	-	-	-	-	-	15,915,152	**15,915,152**
Total liabilities and equity		106,047,765	12,437,731	8,015,488	1,174,814	274,308	19,778,104	**147,728,210**
On-balance sheet gap		6,265,059	6,182,355	(7,161,243)	2,757,315	(37,731)	(8,005,755)	-
Off-balance sheet gap		(4,183,797)	(1,231,461)	-	4,274,302	1,140,956	-	-
Total interest rate sensitivity gap		2,081,262	4,950,894	(7,161,243)	7,031,617	1,103,225	(8,005,755)	-
Cumulative interest rate sensitivity gap		2,081,262	7,032,156	(129,087)	6,902,530	8,005,755	-	-

Included in investment securities are interest bearing amounts of AED 281,509 thousand relating to the Bank's overseas branches with effective rate of 7.54%.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

38 Interest rate risk framework, measurement and monitoring (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2007 was as follows:

	Effective rate	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets								
Cash and balances with Central Banks	3.76	12,500,000	-	500,000	-	-	2,657,588	15,657,588
Deposits and balances due from banks	5.10	5,768,634	41,418	159,946	-	10,209	50,157	6,030,364
Trading securities	-	-	-	-	-	-	122,433	122,433
Loans and advances, net	7.24	57,886,983	16,874,363	639,133	1,608,945	-	(1,333,342)	75,676,082
Derivative financial instruments	-	2,061,168	524,296	75,372	343,274	64,132	-	3,068,242
Investment securities	6.47	1,605,689	669,361	684,595	8,543	-	-	2,968,188
Investment properties	-	-	-	-	-	-	445,730	445,730
Other assets	-	-	-	-	-	-	1,752,721	1,752,721
Property and equipment, net	-	-	-	-	-	-	492,501	492,501
Total assets		79,822,474	18,109,438	2,059,046	1,960,762	74,341	4,187,788	106,213,849
Liabilities and equity								
Due to banks	4.52	3,358,583	1,732,258	252,949	26,761	-	227,825	5,598,376
Customers' deposits	3.96	39,506,947	4,712,421	3,564,579	81,769	11,760	9,283,344	57,160,820
Short and medium term borrowings	5.48	20,393,771	2,588,274	4,169,970	-	-	218,249	27,370,264
Derivative financial instruments	-	1,728,191	245,728	80,879	278,625	79,846	-	2,413,269
Other liabilities	-	-	-	-	-	-	2,259,377	2,259,377
Equity	-	-	-	-	-	-	11,411,743	11,411,743
Total liabilities and equity		64,987,492	9,278,681	8,068,377	387,155	91,606	23,400,538	106,213,849
On-balance sheet gap		14,834,982	8,830,757	(6,009,331)	1,573,607	(17,265)	(19,212,750)	-
Off-balance sheet gap		(3,101,704)	(2,241,568)	325,517	1,587,772	3,429,983	-	-
Total interest rate sensitivity gap		11,733,278	6,589,189	(5,683,814)	3,161,379	3,412,718	(19,212,750)	-
Cumulative interest rate sensitivity gap		11,733,278	18,322,467	12,638,653	15,800,032	19,212,750	-	-

Included in investment securities and due to banks are interest bearing amounts of AED 174,207 thousand and AED 18,964 thousand respectively relating to the Bank's overseas branches with effective rates of 7 % and 7.4%, respectively.

Notes to the consolidated financial statements
for the year ended December 31, 2008 (continued)

39 Liquidity risk framework, measurement and monitoring

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the Bank's management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents and readily marketable securities.

Liquidity risk management process

The Assets and Liabilities Committee (ALCO) of the Bank sets and monitors liquidity ratios and regularly revises and updates the Bank's liquidity management policies to ensure that the Bank is in a position to meet its obligations as they fall due.

The Bank's liquidity management process, as carried out within the Bank and monitored by Bank's Treasury, includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Bank has set an internal ceiling on the Advances to Deposits Ratio (ADR) that should not be higher than 1:1 between:

- the amount of loans and advances together with the amount of inter bank placements with a remaining life of more than three months and;
- the amount of stable resource comprising of "free own funds", a remaining life of more than six months, "stable customer deposits", and standby liquidity facilities.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

39 Liquidity risk framework, measurement and monitoring (continued)

Liquidity risk management process (continued)

The above definitions are broadly in line with the Central Bank of United Arab Emirates definitions of the Advances to Deposits Ratio, except that the statutory definition does not take into account the standby liquidity facilities.

The Bank also has unsecured standby facilities of USD 175,000 thousand (2007 – USD 850,000 thousand) to fund its liquidity needs (Note 18).

Funding approach

Sources of liquidity are regularly monitored by a separate team in the Bank's Treasury to maintain a wide diversification by currency, geography, provider, product and term.

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated balance sheet date to the contractual maturity date and do not take into account the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at year end is based on contractual repayment arrangements, as follows:

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

39 Liquidity risk framework, measurement and monitoring (continued)

The maturity profile of the assets and liabilities at December 31, 2008 was as follows:

	Total AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000
Assets						
Cash and balances with Central Banks	**3,911,009**	3,861,009	50,000	-	-	-
Deposits and balances due from banks	**17,528,422**	17,090,255	36,730	8,500	369,749	23,188
Loans and advances, net	**108,812,970**	33,674,172	1,410,958	10,754,132	15,701,487	47,272,221
Derivative financial instruments	**6,202,686**	271,594	118,498	86,797	2,365,662	3,360,135
Investment securities	**3,422,794**	183,728	48,653	306,113	717,318	2,166,982
Investments in associates	**4,427,529**	-	-	-	-	4,427,529
Investment properties	**632,492**	-	-	-	-	632,492
Other assets	**2,210,122**	2,210,122	-	-	-	-
Property and equipment, net	**580,186**	-	-	-	-	580,186
Total assets	**147,728,210**	57,290,880	1,664,839	11,155,542	19,154,216	58,462,733
Liabilities and Equity						
Due to banks	**6,905,263**	5,807,154	435,873	23,959	241,477	396,800
Customers' deposits	**84,360,821**	62,468,078	8,614,566	6,205,635	3,758,753	3,313,789
Mandatory convertible securities	**168,435**	-	-	-	168,435	-
Short and medium term borrowings	**30,566,548**	1,486,825	403,286	5,405,344	12,520,218	10,750,875
Derivative financial instruments	**6,363,966**	451,299	123,006	60,569	2,469,145	3,259,947
Other liabilities	**3,448,025**	3,448,025	-	-	-	-
Equity	**15,915,152**	588,603	-	-	-	15,326,549
Total liabilities and equity	**147,728,210**	74,249,984	9,576,731	11,695,507	19,158,028	33,047,960
Liquidity gap	**-**	(16,959,104)	(7,911,892)	(539,965)	(3,812)	25,414,773
Cumulative liquidity gap	**-**	(16,959,104)	(24,870,996)	(25,410,961)	(25,414,773)	-

Maturities of other assets and liabilities have been determined on the basis of the period remaining at the consolidated balance sheet date to the contractual maturity date.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

39 Liquidity risk framework, measurement and monitoring (continued)

The maturity profile of the assets and liabilities at December 31, 2007 was as follows:

	Total AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000
Assets						
Cash and balances with Central Banks	15,657,588	15,157,588	-	500,000	-	-
Deposits and balances due from banks	6,030,364	5,290,291	586,802	143,063	-	10,208
Trading securities	122,433	-	-	-	122,433	-
Loans and advances, net	75,676,082	24,854,325	2,726,356	2,654,441	9,950,542	35,490,418
Derivative financial instruments	3,068,242	132,773	208,215	149,426	380,064	2,197,764
Investment securities	2,968,188	64,711	99,486	93,134	1,396,309	1,314,548
Investment properties	445,730	-	-	-	-	445,730
Other assets	1,752,721	1,752,721	-	-	-	-
Property and equipment, net	492,501	-	-	-	-	492,501
Total assets	106,213,849	47,252,409	3,620,859	3,540,064	11,849,348	39,951,169
Liabilities and Equity						
Due to banks	5,598,376	3,095,990	2,168,859	-	-	333,527
Customers' deposits	57,160,820	48,790,290	3,964,780	3,564,579	829,411	11,760
Short and medium term borrowings	27,370,264	453,815	170,046	1,383,650	11,184,552	14,178,201
Derivative financial instruments	2,413,269	165,382	205,379	111,843	439,636	1,491,029
Other liabilities	2,259,377	2,259,377	-	-	-	-
Equity	11,411,743	1,288,575	-	-	-	10,123,168
Total liabilities and equity	106,213,849	56,053,429	6,509,064	5,060,072	12,453,599	26,137,685
Liquidity gap	-	(8,801,020)	(2,888,205)	(1,520,008)	(604,251)	13,813,484
Cumulative liquidity gap	-	(8,801,020)	(11,689,225)	(13,209,233)	(13,813,484)	-

Trading securities are assumed to be immediately realisable. Maturities of other assets and liabilities have been determined on the basis of the period remaining at the consolidated balance sheet date to the contractual maturity date.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

40 Foreign exchange risk framework, measurement and monitoring

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. At December 31, the Bank had the following significant net exposures denominated in foreign currencies:

	2008 AED'000 equivalent long/(short)	2007 AED'000 equivalent long/(short)
US $	**(7,312,885)**	(1,346,463)
Indian Rupee	**73,252**	73,854
Omani Riyal	**2,057**	1,319
Pound Sterling	**2,593**	(1,803)
Euro	**9,382**	2,348
Bahraini Dinar	**(191)**	(445)
Saudi Riyal	**23**	(1,082)
Japanese Yen	**712**	(1,308)
Australian Dollar	**(8,329)**	(2,958)
Swiss Franc	**8**	899
Malaysian Ringgit	**4,280,870**	(10)
Qatari Riyal	**1,512**	492
Others	**(336)**	(603)

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

40 Foreign exchange risk framework, measurement and monitoring (continued)

Currency concentrations as at December 31, 2008:

	AED '000	US$ '000	EUR '000	CHF '000	GBP '000	MYR '000	Other '000	Total AED'000
Assets								
Cash and balances with Central Banks	3,475,617	414,395	10	-	-	-	20,987	**3,911,009**
Deposits and balances due from banks	4,681,545	9,881,498	2,703,500	3,740	140,144	2	117,993	**17,528,422**
Loans and advances, net	81,600,530	23,440,224	465,262	186,625	5,765	-	3,114,564	**108,812,970**
Derivative financial instruments	947,797	3,758,501	54,339	-	1,257,452	-	184,597	**6,202,686**
Investment securities	1,837,837	1,182,414	57,778	-	-	-	344,765	**3,422,794**
Investments in associates	100,000	-	-	-	-	4,327,529	-	**4,427,529**
Investment properties	632,492	-	-	-	-	-	-	**632,492**
Other assets	1,105,230	860,247	15,352	16,835	-	13,402	199,056	**2,210,122**
Property and equipment, net	575,278	-	-	-	-	-	4,908	**580,186**
Total assets	**94,956,326**	**39,537,279**	**3,296,241**	**207,200**	**1,403,361**	**4,340,933**	**3,986,870**	**147,728,210**
Liabilities								
Due to banks	2,982,590	2,897,531	607,836	-	71,892	-	345,414	**6,905,263**
Customers' deposits	55,127,064	25,002,964	2,682,781	38,654	167,256	12	1,342,090	**84,360,821**
Mandatory convertible securities	168,435	-	-	-	-	-	-	**168,435**
Short and medium term borrowings	5,913,000	18,252,851	1,076,738	1,550,225	2,677,158	-	1,096,576	**30,566,548**
Derivative financial instruments	246,234	6,117,732	-	-	-	-	-	**6,363,966**
Other liabilities	2,529,765	527,436	99,360	24,317	36,797	1,287	229,063	**3,448,025**
Total liabilities	**66,967,088**	**52,798,514**	**4,466,715**	**1,613,196**	**2,953,103**	**1,299**	**3,013,143**	**131,813,058**
Off balance sheet items								
Letters of credit	3,070,397	4,629,476	226,373	1,628	7,439	-	747,539	**8,682,852**
Guarantees	10,638,819	4,010,136	383,922	2,018	23,334	-	931,403	**15,989,632**
Commitments to extend credit	21,544,501	2,710,870	87,236	178	357	-	125,377	**24,468,519**
Credit default swaps	-	2,395,094	-	-	-	-	-	**2,395,094**
	35,253,717	13,745,576	697,531	3,824	31,130	-	1,804,319	**51,536,097**
Commitments for future capital expenditure	505,590	-	-	-	-	-	-	**505,590**
Commitments to invest in investment securities	-	119,579	-	-	-	-	-	**119,579**
Total off balance sheet items	**35,759,307**	**13,865,155**	**697,531**	**3,824**	**31,130**	**-**	**1,804,319**	**52,161,266**

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

40 Foreign exchange risk framework, measurement and monitoring (continued)

Currency concentrations as at December 31, 2007:

	AED '000	US$ '000	EUR '000	CHF '000	GBP '000	Other '000	Total AED'000
Assets							
Cash and balances with Central Banks	15,279,263	344,388	4	-	-	33,933	15,657,588
Deposits and balances due from banks	274,905	3,981,778	219,810	995	68,863	1,484,013	6,030,364
Trading securities	122,278	155	-	-	-	-	122,433
Loans and advances, net	47,470,978	25,256,533	832,842	185,888	11,544	1,918,297	75,676,082
Derivative financial instruments	282,168	2,518,008	31,356	-	60,848	175,862	3,068,242
Investment securities	364,230	2,166,767	208,943	-	-	228,248	2,968,188
Investment properties	445,730	-	-	-	-	-	445,730
Other assets	503,827	-	293,826	-	-	955,068	1,752,721
Property and equipment, net	486,416	-	-	-	-	6,085	492,501
Total assets	65,229,795	34,267,629	1,586,781	186,883	141,255	4,801,506	106,213,849
Liabilities							
Due to banks	1,365,259	3,751,894	255,461	64,544	8,522	152,696	5,598,376
Customers' deposits	36,891,269	15,142,719	910,449	328,225	925,369	2,962,789	57,160,820
Short and medium term borrowings	5,936,249	14,857,285	270,829	1,641,601	3,669,970	994,330	27,370,264
Derivative financial instruments	274,673	1,884,902	23,734	-	60,745	169,215	2,413,269
Other liabilities	1,498,504	680,525	14,996	22,635	42,717	-	2,259,377
Total liabilities	45,965,954	36,317,325	1,475,469	2,057,005	4,707,323	4,279,030	94,802,106
Off balance sheet items							
Letters of credit	2,330,703	2,037,672	339,622	12,046	4,738	1,169,149	5,893,930
Guarantees	8,274,515	5,094,112	535,594	3,518	33,028	819,273	14,760,040
Commitments to extend credit	25,711,293	5,303,299	342,427	-	-	221,408	31,578,427
Credit default swaps	-	3,221,685	-	-	-	-	3,221,685
	36,316,511	15,656,768	1,217,643	15,564	37,766	2,209,830	55,454,082
Commitments for future capital expenditure	56,980	-	-	-	-	-	56,980
Commitments to invest in investment securities	-	93,580	-	-	-	-	93,580
Total off balance sheet items	36,373,491	15,750,348	1,217,643	15,564	37,766	2,209,830	55,604,642

41 Market risk framework, measurement and monitoring

Market risk is the risk that the Bank's income and/or value of a financial instrument will fluctuate because of changes in market factors such as interest rates, foreign exchange rates and market prices of equity.

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Bank is exposed to market risk with respect to its investments in marketable securities. The Bank limits market risks by maintaining a diversified portfolio and by the continuous monitoring of developments in the market. In addition, the Bank actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

Management of market risk

The Board of Directors has set risk limits based on sensitivity analysis and notional limits which are closely monitored by the Risk Management Division, reported weekly to Senior Management and discussed fortnightly by ALCO.

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are held by the Treasury and Derivatives Division, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Bank's activities expose it primarily to the financial risk of changes in foreign currency exchange rates and interest rates. The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risk.

Market risk is identified, measured, monitored, and controlled by an independent risk control function. Market risk management aims to reduce volatility in operating performance and make the Bank's market risk profile transparent to Senior Management, the Board of Directors and Regulators.

Market risk management is overseen by the Risk Management Committee and performs the following primary functions:

- Establishment of a comprehensive market risk policy framework;
- Independent measurement, monitoring and control of market risk;
- Setting up, approval and monitoring of limits.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

41 Market risk framework, measurement and monitoring (continued)

Risk identification and classification

The Risk Management Committee identifies and classifies market risk for the Bank and puts in place risk management policies and procedures. All business segments are responsible for comprehensive identification and verification of market risks within their business units. Regular meetings are held between market risk management and the heads of risk taking businesses to discuss and decide on risk exposures in the context of the market environment.

Market risk is broadly classified into trading and non-trading categories:

Trading risk includes positions that are held by the Bank's trading unit whose main business strategy is to trade or make markets. Unrealised gains and losses in these positions are generally reported in principal transactions under trading income.

Non-trading risk includes securities and other assets held for longer-term investment in securities and derivatives used to manage the Bank's asset/liability exposures. Unrealised gains and losses in these positions are generally not reported in principal transactions revenue.

Trading risk

Market risk which includes interest rate risk, foreign exchange, equities and commodities and other trading risks involve the potential decline in net income or financial condition due to adverse changes in market rates.

Non-trading risk

Non-trading risk arises from execution of the Bank's core business strategies, products and services to its customers, and the strategic positions the Bank undertakes to risk-manage exposures.

These exposures can result from a variety of factors including but not limited to re-pricing of gaps in assets, liabilities and off-balance sheet instruments and changes in the level and shape of market interest rate curves.

Risk measurement

The following are the tools used to measure the market risk, because no single measure can reflect all aspects of market risk, the Bank uses various matrices, both statistical and non-statistical, including:

- Non-statistical risk measures; and
- Sensitivity analysis

Non-statistical risk measures

Non-statistical risk measures, other than stress testing, include net open positions, basis point values, option sensitivities, market values, position concentrations and position turnover. These measures provide granular information on the Bank's market risk exposure.

41 Market risk framework, measurement and monitoring (continued)

The Bank uses non-statistical scenario based risk limits to monitor and control market risk on a day to day basis.

The scenarios used for interest rate risk assess the change in the portfolio to parallel and non-parallel rate shocks. The non-parallel rate shocks simulate steepening, bending and twisting interest rate scenarios.

Portfolio sensitivity for major interest rate risk currencies (parallel rate shock) is analysed separately for the Bank's trading and non-trading portfolio as follows:

Market risk - Trading portfolio

The following table depicts the sensitivity to a reasonable possible change in interest rates with other variables held constant, and the impact on the Bank's consolidated income statement or equity from trading portfolio.

The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at December 31, 2008, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2008 for the effect of assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap.

Interest rate risk

Parallel Rate Moves in AED interest rates (AED '000):

	+200 bps	+100 bps	-100 bps	-200 bps
December 31, 2008	**(4,605)**	**(7,168)**	**20,185**	**57,299**
December 31, 2007	5	(1,416)	11,860	37,041

Parallel Rate Moves in US$ interest rates (AED '000):

	+200 bps	+100 bps	-100 bps	-200 bps
December 31, 2008	**3,648**	**7,894**	**(25,388)**	**(73,833)**
December 31, 2007	(3,139)	3,389	(16,065)	(48,317)

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

41 Market risk framework, measurement and monitoring (continued)

Market risk - Trading portfolio (continued)

Currency wise

The following table depicts portfolio sensitivity for foreign exchange:

Price Shock in Percentage (AED '000)

December 31, 2008		**+10%**	**+5%**	**-5%**	**-10%**
	AUD	**929**	**417**	**(94)**	**239**
	EUR	**(48)**	**(24)**	**24**	**48**
	GBP	**(10)**	**(5)**	**5**	**10**
	JPY	**(130)**	**(65)**	**65**	**130**
	US$	**(4,566)**	**(2,369)**	**2,960**	**6,354**

Price Shock in Percentage (AED '000):

December 31, 2007		+10%	+5%	-5%	-10%
	AUD	27	14	(14)	(27)
	EUR	59	29	(29)	(59)
	GBP	-	-	-	-
	JPY	190	95	(95)	(190)
	US$	(8,248)	(4,320)	4,775	10,081

Market risk – Non-trading portfolio

Interest rate risk

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, and the impact of the Bank's consolidated income statement from Bank's non-trading portfolio.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities, including the effect of hedging instruments. The sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

	Change in basis points	**Sensitivity of net interest income**	**Sensitivity of equity**
		AED'000	**AED'000**
December 31, 2008	**+25**	**55,148**	**(29,996)**
	-25	**(55,148)**	**29,996**
December 31, 2007	+25	38,420	(33,292)
	-25	(38,420)	33,292

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

41 Market risk framework, measurement and monitoring (continued)

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Bank's investment portfolio.

42 Foreign currency balances

Net assets amounting to the Indian Rupee equivalent of AED 73,243 thousand (2007 – AED 74,311 thousand) held in India are subject to the exchange control regulations of India.

43 Trust activities

As at December 31, 2008, the net asset value of the funds under the management of the Bank amounted to AED 1,137,801 thousand (2007 – AED 1,980,805 thousand).

44 List of subsidiaries

The entities (other than the associates) have been treated as subsidiaries for the purpose of consolidation as the Bank has control over their financial and operating policies, has invested all or a majority of capital of these entities and is entitled to all or a majority of their profits/losses. The Bank's interest, held directly or indirectly, in the subsidiaries is as follows:

Name of subsidiary	Proportion of ownership interest	Year of incorporation	Country of incorporation	Principal activities
Al Dhabi Brokerage Services L.L.C.	100%	2005	U.A.E.	Agent in trading of financial instruments and stocks.
Abu Dhabi Risk and Treasury Solutions L.L.C. (refer note (i) below)	51%	2005	U.A.E.	Providing computer software and design in relation to risk and treasury solutions.
Abu Dhabi Commercial Properties L.L.C.	100%	2005	U.A.E.	Real estate property management and advice.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

44 List of subsidiaries (continued)

Name of subsidiary	Proportion of ownership interest	Year of incorporation	Country of incorporation	Principal activities
Abu Dhabi Commercial Engineering Services L.L.C.	100%	2007	U.A.E.	Engineering services.
ADCB Holdings (Cayman) Limited	100%	2008	Cayman Islands	Finance and holding company.
ADCB Holdings (Labuan) Limited	100%	2008	Malaysia	Finance and holding company.
ADCB Holdings (Malaysia) Sdn Bhd	100%	2008	Malaysia	Finance and holding company.
ADCB Finance (Cayman) Limited	100%	2008	Cayman Islands	Financing activities.
Abu Dhabi Commercial Islamic Finance P.S.C.	100%	Under Incorporation	U.A.E.	Islamic banking.
ACB LTIP (IOM) Limited	Controlling interest	2008	Isle of Man	Trust activities.
Abu Dhabi Commercial Property Development L.L.C. (*)	100%	2006	U.A.E.	Property development.
Abu Dhabi Commercial Properties Consultancy L.L.C. (*)	100%	2008	U.A.E.	Real estate consultancy.
Abu Dhabi Commercial Finance Solutions L.L.C. (*)	100%	2005	U.A.E.	Financial investments.
Abu Dhabi Commercial Investment Services L.L.C. (*)	100%	2005	U.A.E.	Financial investments.
Abu Dhabi Commercial Bank UK Limited(*)	100%	2008	United Kingdom	Process agent.
Abu Dhabi Commercial Projects Services L.L.C. (*)	100%	2006	U.A.E.	Infrastructure investment.
Kinetic Infrastructure Development L.L.C. (*)	100%	2006	U.A.E.	Infrastructure projects and real estate development.
Al Reem Infrastructure Development L.L.C. (formerly known as Expansion Contracting L.L.C.) (*)	100%	2006	U.A.E.	Investment in commercial projects.

(*) These subsidiaries are dormant.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

44 List of subsidiaries (continued)

(i) The Bank shares its profit in Abu Dhabi Risk and Treasury Solutions L.L.C. in accordance with a separate agreement with the minority shareholders, as follows:

	Bank	Minority shareholders
Up to year 2011	51%	49%
Year 2012 to year 2015	75%	25%

The agreement also provides that the minority shareholders will not share any losses which are incurred as a consequence of the failure of a counterparty to perform its obligation to the subsidiary, Abu Dhabi Risk and Treasury Solutions L.L.C.

45 Capital adequacy and capital management

Capital management process

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the authority on a quarterly basis.

The Central Bank requires each bank to maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above a minimum of 10%.

The U.A.E. Central Bank vide its notice 2545/2007 dated July 31, 2007 advised all the Banks operating in the U.A.E. to implement Standardised approach of Basel II from December 31, 2007. For credit and market risks, the Central Bank has issued draft guidelines for implementation of Standardised approach. For operational risk, the Central Bank has given Banks the option to use the Basic Indicators approach or the Standardised approach and the Bank has chosen to use the Standardised approach. Banks in the U.A.E. are currently on a parallel run on Basel I and Basel II.

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

45 Capital adequacy and capital management (continued)

The ratios calculated in accordance with Basel I and Basel II are as follows:

	Basel II		Basel I	
	2008	2007	**2008**	2007
	AED'000	AED'000	**AED'000**	AED'000
Tier 1 capital				
Share capital	**4,810,000**	4,000,000	**4,810,000**	4,000,000
Statutory and legal reserves	**2,627,979**	2,380,661	**2,627,979**	2,380,661
General and contingency reserves	**2,150,000**	2,150,000	**2,150,000**	2,150,000
Foreign currency translation reserve	**(392,022)**	8,253	**(392,022)**	8,253
Proposed dividends	**481,000**	1,210,000	**481,000**	1,210,000
Retained earnings	**1,522,417**	1,548,598	**1,522,417**	1,548,598
Minority interest in equity of subsidiaries	**107,603**	114,231	**107,603**	114,231
Employees' incentive plan shares	**(25,708)**	-	**(25,708)**	-
Mandatory convertible securities (Note 17)	**4,802,318**	-	**4,802,318**	-
Less: Investments in associates (50%)	**(2,213,765)**	-	**(2,213,765)**	-
	13,869,822	11,411,743	**13,869,822**	11,411,743
Tier 2 capital				
Collective impairment allowance on loans and advances	**1,327,391**	433,465	**1,327,391**	433,465
Subordinated floating rate notes (Note 18)	**1,469,200**	1,469,200	**1,469,200**	1,469,200
Less: Investments in associates (50%)	**(2,213,765)**	-	**(2,213,765)**	-
	582,826	1,902,665	**582,826**	1,902,665
Total regulatory capital	**14,452,648**	13,314,408	**14,452,648**	13,314,408
Risk-weighted assets:				
On-balance sheet	-	-	**114,152,139**	80,607,717
Off-balance sheet	-	-	**16,399,817**	15,077,265
Credit risk	**114,377,569**	84,010,377	-	-
Market risk	**4,383,896**	4,239,932	-	-
Operational risk	**5,966,913**	5,449,379	-	-
Total risk-weighted assets	**124,728,378**	93,699,688	**130,551,956**	95,684,982
Capital adequacy ratio	**11.59%**	14.21%	**11.07%**	13.91%

Notes to the consolidated financial statements for the year ended December 31, 2008 (continued)

45 Capital adequacy and capital management (continued)

In accordance with the U.A.E. Central Bank guidelines, the collective impairment allowance on loans and advances is adjusted from the carrying value of loans and advances for computing the risk weighted assets. The capital adequacy ratio under these guidelines was 10.16% (2007 – 13.46%).

46 Subsequent event

Subsequent to the year-end, the Bank has agreed to issue Tier 1 capital notes (the "Notes") to the Government of Abu Dhabi, with a principal amount of AED 4,000,000 thousand. The issuance of these Notes has been approved by the Bank's Board of Directors vide Resolution No 03/01/2009 in their meeting held on February 4, 2009.

The Notes constitute direct, unsecured, subordinated obligations of the Issuer and rank pari passu without any preference among themselves. The rights and claims of the Noteholders will be subordinated to the claims of Senior Creditors. The Notes are non-voting, non-cumulative perpetual securities, and are callable by the Issuer subject to certain conditions.

The capital adequacy ratio per Basel I and Basel II when the issue of these Notes is considered at the balance sheet date would have been 14.13% and 14.8% respectively.

47 Comparative figures

Certain comparative figures for the prior year have been reclassified, where necessary, to conform with the current year presentation.

48 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on February 4, 2009.

ABU DHABI COMMERCIAL BANK P.J.S.C.

Report and consolidated financial statements for the year ended December 31, 2007

ABU DHABI COMMERCIAL BANK P.J.S.C.

Report and consolidated financial statements for the year ended December 31, 2007

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Abu Dhabi Commercial Bank P.J.S.C.
Abu Dhabi, UAE

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Abu Dhabi Commercial Bank P.J.S.C and its subsidiaries (together referred to as the "Bank"), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in pages 3 to 71.

Management's responsibility for the consolidated financial statements

Management of the Bank is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Deloitte.

INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's responsibility (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly in all material respects the financial position of the Bank as of December 31, 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

Also, in our opinion, proper books of account are maintained by the Bank, and the information included in the Board of Directors' report is in agreement with the books of account. We have obtained all the information and explanations which we considered necessary for the purpose of our audit. According to the information available to us, there were no contraventions of the UAE Federal Commercial Companies Law No. (8) of 1984 (as amended) or the Articles of Association of the Bank which might have a material effect on the financial position of the Bank or its financial performance.

Deloitte & Touche
Abu Dhabi - U.A.E.
P.O.Box: 990

Saba Y. Sindaha
Registration Number 410
February 4, 2008

Consolidated balance sheet
as at December 31, 2007

	Notes	2007 AED'000	2006 AED'000	2007 US$'000
ASSETS				
Cash and balances with Central Banks	4	15,657,588	1,898,457	4,262,888
Deposits and balances due from banks	5	6,030,364	10,065,209	1,641,809
Trading securities	6	122,433	77,630	33,333
Loans and advances, net	7	75,676,082	62,424,649	20,603,344
Derivative financial instruments	8	3,068,242	998,544	835,350
Investment securities	9	2,968,188	3,700,744	808,110
Investment properties	10	445,730	-	121,353
Other assets	11	1,752,721	1,411,121	477,191
Property and equipment, net	12	492,501	512,024	134,086
Total assets		106,213,849	81,088,378	28,917,464
LIABILITIES				
Due to banks	13	5,598,376	7,970,187	1,524,197
Customers' deposits	14	57,160,820	43,396,851	15,562,434
Short and medium term borrowings	15	27,370,264	16,610,194	7,451,746
Derivative financial instruments	8	2,413,269	806,033	657,030
Other liabilities	16	2,259,377	1,580,935	615,131
Total liabilities		94,802,106	70,364,200	25,810,538
EQUITY				
Share capital	17	4,000,000	4,000,000	1,089,028
Statutory and legal reserves	18	2,380,661	1,983,157	648,151
General and contingency reserves	18	2,150,000	2,075,000	585,353
Proposed dividends	19	1,210,000	1,210,000	329,431
Cumulative change in fair values		(94,854)	47,329	(25,825)
Retained earnings		1,651,705	1,342,892	449,688
Equity attributable to equity holders of the parent		11,297,512	10,658,378	3,075,826
Minority interest		114,231	65,800	31,100
Total equity		11,411,743	10,724,178	3,106,926
Total liabilities and equity		106,213,849	81,088,378	28,917,464
Commitments and contingent liabilities	29	55,604,642	39,232,789	15,138,754

Saeed Al Hajeri
Chairman

Eirvin Knox
Chief Executive Officer

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated income statement for the year ended December 31, 2007

	Notes	2007 AED'000	2006 AED'000	2007 US$'000
Interest income	20	5,992,224	4,127,608	1,631,425
Interest expense	21	(3,703,809)	(2,353,617)	(1,008,388)
Net interest income		2,288,415	1,773,991	623,037
Net fee and commission income	22	873,960	1,129,246	237,942
Net gains from dealing in foreign currencies	23	116,566	72,076	31,736
Increase in fair value of investment properties	10	295,361	-	80,414
Net gain on dealing in derivatives		87,724	109,396	23,883
Dividend income		356	3,785	97
Gain/(loss) on trading and investment securities	24	105,456	(28,224)	28,711
Other operating income		32,036	36,908	8,722
Operating income		3,799,874	3,097,178	1,034,542
Staff expenses		(543,743)	(440,218)	(148,039)
Depreciation	12	(50,252)	(41,064)	(13,681)
Other operating expenses		(414,635)	(272,597)	(112,887)
Allowance for doubtful loans and advances, net of recoveries		(143,363)	(193,470)	(39,032)
Impairment losses on investment securities	9	(493,535)	-	(134,368)
Impairment losses on credit default derivatives	29	(66,060)	-	(17,985)
Operating expenses		(1,711,588)	(947,349)	(465,992)
Profit from operations, before taxation		2,088,286	2,149,829	568,550
Overseas income tax expense	26	(3,356)	(2,630)	(914)
Net profit for the year		2,084,930	2,147,199	567,636
Attributed to:				
Equity holders of the parent		1,987,518	2,081,617	541,115
Minority interest		97,412	65,582	26,521
Net profit for the year		2,084,930	2,147,199	567,636
Basic earnings per share (AED)	25	0.50	0.52	0.14

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity for the year ended December 31, 2007

	Notes	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Proposed dividends AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interest AED'000	Total equity AED'000
Balance at January 1, 2007		4,000,000	1,013,972	969,185	1,925,000	150,000	1,210,000	47,329	1,342,892	10,658,378	65,800	10,724,178
Dividends paid	19	-	-	-	-	-	(1,210,000)	-	-	(1,210,000)	(48,981)	(1,258,981)
Net profit for the year 2007		-	-	-	-	-	-	-	1,987,518	1,987,518	97,412	2,084,930
Exchange difference arising on translation of foreign operations		-	-	-	-	-	-	-	8,253	8,253	-	8,253
Transfer to statutory reserve	18	-	198,752	-	-	-	-	-	(198,752)	-	-	-
Transfer to legal reserve	18	-	-	198,752	-	-	-	-	(198,752)	-	-	-
Transfer to general reserve	18	-	-	-	75,000	-	-	-	(75,000)	-	-	-
Decrease in fair value of available for sale investments		-	-	-	-	-	-	(144,581)	-	(144,581)	-	(144,581)
Board of directors' remuneration		-	-	-	-	-	-	-	(4,750)	(4,750)	-	(4,750)
Realised loss on sale of available for sale investments		-	-	-	-	-	-	2,694	-	2,694	-	2,694
Realised loss on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)		-	-	-	-	-	-	(296)	296	-	-	-
Proposed cash dividends	19	-	-	-	-	-	1,210,000	-	(1,210,000)	-	-	-
Balance at December 31, 2007		4,000,000	1,212,724	1,167,937	2,000,000	150,000	1,210,000	(94,854)	1,651,705	11,297,512	114,231	11,411,743

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
for the year ended December 31, 2007 (continued)

	Notes	Share capital AED'000	Statutory reserve AED'000	Legal reserve AED'000	General reserve AED'000	Contingency reserve AED'000	Proposed dividends AED'000	Cumulative changes in fair values AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Minority interest AED'000	Total equity AED'000
Balance at January 1, 2006		4,000,000	805,810	761,023	1,850,000	150,000	-	75,881	966,216	8,608,930	9,483	8,618,413
Dividends paid		-	-	-	-	-	-	-	-	-	(9,265)	(9,265)
Net profit for the year 2006		-	-	-	-	-	-	-	2,081,617	2,081,617	65,582	2,147,199
Exchange difference arising on translation of foreign operations		-	-	-	-	-	-	-	1,087	1,087	-	1,087
Transfer to statutory reserve	18	-	208,162	-	-	-	-	-	(208,162)	-	-	-
Transfer to legal reserve	18	-	-	208,162	-	-	-	-	(208,162)	-	-	-
Transfer to general reserve	18	-	-	-	75,000	-	-	-	(75,000)	-	-	-
Increase/decrease in fair value of available for sale investments		-	-	-	-	-	-	(28,401)	-	(28,401)	-	(28,401)
Board of directors' remuneration		-	-	-	-	-	-	-	(4,750)	(4,750)	-	(4,750)
Realised gain on sale of available for sale investments		-	-	-	-	-	-	(151)	-	(151)	-	(151)
Realised loss on sale of available for sale investments (previously included in retained earnings on adoption of IAS 39)		-	-	-	-	-	-	-	46	46	-	46
Proposed cash dividends	19	-	-	-	-	-	1,210,000	-	(1,210,000)	-	-	-
Balance at December 31, 2006		4,000,000	1,013,972	969,185	1,925,000	150,000	1,210,000	47,329	1,342,892	10,658,378	65,800	10,724,178

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended December 31, 2007

	Note	2007 AED'000	2006 AED'000	2007 US$ 000
OPERATING ACTIVITIES				
Net profit before taxation and minority interest		**2,088,286**	2,149,829	**568,550**
Adjustments for:				
Exchange differences arising on translation of foreign operations		**7,589**	956	**2,067**
Depreciation on property and equipment		**50,252**	41,064	**13,681**
Gain on sale of property and equipment		**(396)**	(25)	**(108)**
Allowance for doubtful loans and advances		**294,702**	339,293	**80,235**
Recovery of allowance for doubtful loans and advances		**(151,339)**	(145,823)	**(41,203)**
Impairment loss on investment securities		**493,535**	-	**134,368**
Impairment loss on credit default derivatives		**66,060**	-	**17,985**
Gain on sale of investment securities		**(105,456)**	(11,467)	**(28,711)**
Increase in fair value of investment properties		**(295,361)**	-	**(80,414)**
Operating profit before changes in operating assets and liabilities		**2,447,872**	2,373,827	**666,450**
Decrease in due from banks		**1,994,085**	455,112	**542,904**
(Increase)/decrease in trading securities		**(44,803)**	315,206	**(12,198)**
Increase in loans and advances to customers		**(13,394,796)**	(20,454,058)	**(3,646,827)**
Increase in derivative financial assets		**(1,879,179)**	(587,709)	**(511,620)**
Increase in other assets		**(341,600)**	(442,805)	**(93,003)**
Increase/(decrease) in due to banks		**2,324,877**	(1,312,767)	**632,964**
Increase in customers' deposits		**13,763,968**	9,459,472	**3,747,337**
Increase in derivative financial liabilities		**1,607,236**	448,280	**437,581**
Increase in other liabilities		**611,712**	515,980	**166,543**
Cash from/(used in) operations		**7,089,372**	(9,229,462)	**1,930,131**
Directors' remuneration paid		**(4,750)**	(1,850)	**(1,293)**
Overseas taxation paid		**(2,686)**	(2,630)	**(731)**
Net cash from/(used in) operations		**7,081,936**	(9,233,942)	**1,928,107**
INVESTING ACTIVITIES				
Purchase of investment securities		**(1,141,700)**	(3,705,912)	**(310,836)**
Proceeds from sale of investment securities		**1,344,290**	1,759,583	**365,992**
Purchase of property and equipment, net		**(90,515)**	(149,776)	**(24,643)**
Purchase of investment properties		**(90,072)**	-	**(24,523)**
Proceeds from sale of property and equipment		**550**	36	**150**
Net cash from/(used in) investing activities		**22,553**	(2,096,069)	**6,140**
FINANCING ACTIVITIES				
Proceeds from short and medium term borrowings		**10,569,551**	8,832,980	**2,877,634**
Dividends paid to Bank's shareholders		**(1,210,000)**	-	**(329,431)**
Dividends paid – minority shareholders		**(48,981)**	(9,265)	**(13,335)**
Net cash from financing activities		**9,310,570**	8,823,715	**2,534,868**
Increase/(decrease) in cash and cash equivalents		**16,415,059**	(2,506,296)	**4,469,115**
Cash and cash equivalents at beginning of the year		**1,436,830**	3,943,126	**391,187**
Cash and cash equivalents at the end of the year	27	**17,851,889**	1,436,830	**4,860,302**

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended December 31, 2007

1 Activities

Abu Dhabi Commercial Bank P.J.S.C. (the "Bank") is a public joint stock company with limited liability incorporated in the Emirate of Abu Dhabi, United Arab Emirates. The Bank changed its name from Khalij Commercial Bank to Abu Dhabi Commercial Bank after merging with Emirates Commercial Bank and Federal Commercial Bank on July 1, 1985. The Bank carries on retail, commercial, investment, merchant, brokerage and fund management activities through its network of thirty nine branches in the United Arab Emirates, two branches in India, its subsidiaries and joint ventures.

The registered head office of the Bank is at P O Box 939, Abu Dhabi, United Arab Emirates (U.A.E.).

The Bank is registered as a public joint stock company in accordance with U.A.E. Federal Commercial Companies Law No. (8) of 1984 (as amended).

2 Significant accounting policies

The consolidated financial statements are prepared and presented in United Arab Emirate Dirhams (AED), which is the Bank's functional and presentation currency.

The US Dollar (US$) amounts are presented for the convenience of the reader.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of the Laws of the U.A.E.

Adoption of new and revised standards

In the current year, the Bank has adopted IFRS 7 *Financial Instruments: Disclosures* which is effective for annual reporting periods beginning on or after 1 January 2007, and the consequential amendments to International Accounting Standard (IAS)1 *Presentation of Financial Statements*.

IFRS 7 introduces new disclosures of qualitative and quantitative information about the significance of, and the nature and extent of risks arising from financial instruments. The amendment to IAS 1 introduces disclosures about the level of capital and how the Bank measures capital. IFRIC 10 *Interim Financial Reporting and Impairment* requires that the Bank shall not reverse any impairment losses recognized in a previous interim period in respect of an investment in equity instrument or a financial asset carried at cost, because the fair value cannot be reliably measured.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Four Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current year. These are: IFRIC 7 *Applying the Restatement Approach under* IAS 29, *Financial Reporting in Hyperinflationary Economies*; IFRIC 8 *Scope of IFRS 2*; IFRIC 9 *Reassessment of Embedded Derivatives*; and IFRIC 10 *Interim Financial Reporting and Impairment*. The adoption of these Interpretations has not led to any changes in the Bank's accounting policies.

At the date of authorization of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

IAS 1 (Revised)	*Presentation of Financial Statements* (effective for accounting periods beginning on or after January 1, 2009)
IAS 23 (Revised)	*Borrowing Costs* (effective for accounting periods beginning on or after January 1, 2009)
IFRS 8	*Operating Segments* (effective for accounting periods beginning on or after January 1, 2009)
IFRIC 11	*Bank and Treasury Share Transactions* (effective for accounting periods beginning on or after March 1, 2007)
IFRIC 12	*Service Concession Arrangements* (effective for accounting periods beginning on or after January 1, 2008)
IFRIC 13	*Customer Loyalty Programs* (effective for accounting periods beginning on or after July 1, 2008)
IFRIC 14	*The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective for accounting periods beginning on or after January 1, 2008)

The directors anticipate that all of the above Standards and Interpretations will be adopted in the Bank's financial statements for the period commencing January 1, 2008 or as and when it is applicable, and that the adoption of those Standards and Interpretations will have no material impact on the consolidated financial statements of the Bank in the period of initial application.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments and investment properties which are carried at fair value. In addition, as more fully explained below, assets and liabilities that are hedged are carried at fair value to the extent of the risk being hedged.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated financial statements comprise the financial statements of the Bank and of the following subsidiaries. The financial statements of the subsidiaries are prepared for the same reporting year as that of the Bank, using consistent accounting policies.

Name of Subsidiary	Proportion of ownership interest	Year of incorporation	Country of incorporation	Principal activities
Al Dhabi Brokerage Services L.L.C.	100%	2005	UAE	Agent in trading of financial instruments and stocks.
Abu Dhabi Risk and Treasury Solutions L.L.C.	51%	2005	UAE	Providing computer software and design in relation with risk and treasury solutions.
Abu Dhabi Commercial Properties L.L.C.	100%	2006	UAE	Real estate property management and investments.
ADCB Real Estate Fund	100%	2007	UAE	Investing in Real Estate assets in the UAE.

The Bank shares its profit in Abu Dhabi Risk and Treasury Solutions L.L.C. in accordance with a separate agreement with the minority shareholders, as follows:

Up to year 2011	51%
Year 2012 to year 2015	75%

The agreement with the minority shareholders also provides that the minority shareholders will not share any losses in this subsidiary.

All significant inter-company balances, income and expense items are eliminated on consolidation.

Minority interest represents the portion of profit or loss for the year and net assets of consolidated subsidiaries not owned directly or indirectly by the Bank and are identified separately from the Bank's equity therein, except to losses applicable to the minority in Abu Dhabi Risk and Treasury Solutions L.L.C. which are allocated against the interest of the Bank as stated above. Minority interests consist of minority shareholders' share in the net equity of the subsidiaries.

2 Significant accounting policies (continued)

Due from banks

Due from banks are stated at cost less any amounts written off and allowance for impairment. The carrying values of such assets which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged with the resultant adjustment taken to the consolidated income statement.

Investments

Trading securities

Investments are considered as held for trading if they have been acquired principally for the purpose of selling in the near term, or they form part of an identified portfolio of financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. Trading securities are initially recognised and subsequently measured at fair value with any unrealised gain or loss arising from the change in fair value and realised gains and losses taken to the consolidated income statement. Interest income and dividend income are recorded in the consolidated income statement according to the terms of contract, or when the right to the payment has been established.

Investment securities

These are classified as follows:
- Held to maturity
- Available for sale

All investments are initially recognised at cost, being the fair value of the consideration given and in the case of investment securities including acquisition charges associated with the investment.

Held to maturity

Investments which have fixed or determinable payments with fixed maturity which the Bank has the intention and ability to hold to maturity, are classified as held to maturity investments. Held to maturity investments are carried at amortised cost, using effective interest rate method less any impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition on an effective interest rate method.

Any gain or loss on such investments is recognised in the consolidated income statement when the investment is derecognised or impaired.

Investments classified as held to maturity and not close to their maturity, cannot ordinarily be sold or reclassified without impacting the Bank's ability to use this classification and cannot be designated as a hedged item with respect to interest rate or prepayment risk, reflecting the longer-term nature of these investments.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Investments (continued)

Available for sale

Investments not classified as either "held for trading" or "held to maturity" are classified as "available for sale".

After initial recognition, investments which are classified as "available for sale" are remeasured at fair value. Unrealised gains and losses on remeasurement to fair value of investments which are not part of an effective hedging relationship, are reported as a separate component of equity until the investment is sold, collected or otherwise disposed off, or the investment is determined to be impaired, at which time the cumulative gains or losses previously reported in equity are included in the consolidated income statement.

Any gains or losses arising from a change in fair value of available for sale investments which are part of an effective hedging relationship, are recognised directly in the consolidated income statement to the extent of the changes in fair value being hedged.

Fair values

All financial instruments are recognised initially at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, i.e. the fair value of the consideration given or received.

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices;
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;
- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Loans and advances

Loans and advances are non-derivative financial assets originated or acquired by the Bank with fixed or determinable payments.

Loans and advances are stated at cost less any amounts written off and allowance for doubtful accounts. The carrying values of loans and advances which are being effectively hedged for changes in fair value are adjusted to the extent of the changes in fair value being hedged with the resultant adjustment recognised in the consolidated income statement.

Allowance for impairment is made against loans and advances when their recovery is in doubt taking into consideration IFRS requirements for fair value measurement. Loans and advances are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Impairment of financial assets

Financial assets, other than those that are held for trading, are assessed for indicators of impairment at each consolidated balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets. When an advance receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

With the exception of available for sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the income statement to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Any subsequent increase in the fair value of an equity instrument against which an impairment loss was previously recognised cannot be reversed through the consolidated income statement, rather can be recognised directly in equity.

Impairment of tangible and intangible assets

At each consolidated balance sheet date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Impairment of tangible and intangible assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in the consolidated income statement, unless the relevant asset is carried at revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Loan impairment

Individually assessed loans

Individually assessed loans mainly represent corporate and commercial loans which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. Loans are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Bank in accordance with the original contractual terms. Doubt about the borrower's ability to meet payment obligations generally arise when:

a) Principal and interest are not serviced as per contractual terms; and
b) When there is significant deterioration in the borrower's financial condition and the amount expected to be realised from disposal of collaterals if any are not likely to cover the present carrying value of the loan.

Impaired loans are measured on the basis of the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or fair value of the collateral if the loan is collateral dependent. Impairment loss is calculated as the difference between the loan's carrying value and its present impaired value.

Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances calculated on:

a) Performing loans
b) Retail loans with common features and which are not individually significant.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Loan impairment (continued)

Performing loans

Where individually assessed loans are evaluated and no evidence of loss has been identified, these loans are classified as performing loans portfolios with common credit risk characteristics based on industry, product or loan rating. Impairment covers losses which may arise from individual performing loans that are impaired at the consolidated balance sheet date but were not specifically identified as such until some time in the future. The estimated impairment is calculated by the Bank's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Retail loans with common features and which are not individually significant

Impairment of retail loans is calculated by applying a formulaic approach which allocates progressively higher loss rates in line with the overdue installment date.

Renegotiated loans

Retail loans, which are subject to collective impairment review and whose terms have been renegotiated, are no longer considered to be past due and consequently impaired only when the minimum required number of payments under the new arrangements have not been received and the borrower has not complied with the revised terms and conditions.

Loans subject to individual impairment assessment, whose terms have been renegotiated, are subject to continuous review to determine whether they remain impaired or are considered to be past due depending upon the borrower complying with the revised terms and conditions and making the minimum required payments for the loans to be moved to performing category.

Loans that are either subject to collective impairment assessment or are individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated.

Collateral pending sale

The Bank occasionally acquires real estate and other collateral in settlement of certain loans and advances. Such real estate and other collateral is stated at the lower of the net realisable value of the loans and advances and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation are recognised in the consolidated income statement.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Derivative financial instruments

The Bank enters into a variety of derivative financial instruments to manage the exposure to interest and foreign exchange rate risks, including forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps and currency and interest rate options (both written and purchased).

Derivative financial instruments are initially measured at cost, being the fair value at contract date, and are subsequently re-measured at fair value. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative.

Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

Changes in the fair value of derivative financial instruments that do not qualify for hedge accounting are recognised in the consolidated income statement as they arise.

For the purpose of hedge accounting, the Bank classifies hedges into two categories: (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and (b) cash flow hedges which hedge exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction that will affect future reported net income.

In order to qualify for hedge accounting, it is required that the hedge should be expected to be highly effective, i.e. the changes in fair value or cash flows of the hedging instrument should effectively offset corresponding changes in the hedged item and should be reliably measurable. At inception of the hedge, the risk management objective and strategy is documented including the identification of the hedging instrument, the related hedged item, the nature of risk being hedged, and how the Bank will assess the effectiveness of the hedging relationship. Subsequently, the hedge is required to be assessed and determined to be an effective hedge on an ongoing basis.

In relation to fair value hedges, which meet the criteria for hedge accounting, any gain or loss from re-measuring the hedging instruments to fair value is recognised in the consolidated income statement.

In relation to cash flow hedges which meet the criteria for hedge accounting, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised initially in shareholders' equity and the ineffective portion, if any, is recognised in the consolidated income statement. For cash flow hedges affecting future transactions, the gains or losses recognised in equity are transferred to the consolidated income statement in the same period in which the hedged transaction affects the consolidated income statement.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Derivative financial instruments (continued)

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At any point in time, any cumulative gain or loss on the cash flow hedging instrument that was recognised in equity is retained in shareholders' equity until the forecasted transaction occurs. Where the hedged forecasted transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the consolidated income statement for the year.

Derivatives embedded in other financial instruments or other non-financial host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains or losses reported in the consolidated income statement.

Investment properties

Investment properties, which are properties held to earn rentals and/or capital appreciation, are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value. Gains and losses arising from changes in fair value of investment properties are included in the consolidated income statement.

Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and impairment loss, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the asset.

Depreciation is charged so as to write off the cost or valuation of assets, over their estimated useful lives using the straight-line method as follows:

Freehold properties	15 to 25 years
Leasehold properties	5 to 10 years
Furniture, equipment and vehicles	3 to 5 years
Computer equipment and accessories	3 to 10 years

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset at that date and is recognised in the consolidated income statement.

2 Significant accounting policies (continued)

Capital work in progress

Capital work in progress is stated at cost. When commissioned, capital work in progress is transferred to the appropriate property and equipment category and depreciated in accordance with the Bank's policies.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Customers' deposits and short and medium term borrowings

Customers' deposits and short and medium term borrowings are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective interest method.

Employees' end of service benefits

The Bank provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Pension and national insurance contributions for U.A.E. citizens are made by the Bank in accordance with Federal Law No. 7 of 1999.

Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and can be reliably measured.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Repurchase and resale agreements

Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognised in the consolidated balance sheet and are measured in accordance with accounting policies for investment securities. The liability for amounts received under these agreements is included in other liabilities. The difference between sale and repurchase price is treated as interest expense using the effective interest rate yield method. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognised in the consolidated balance sheet. Amounts paid under these agreements are included in other assets. The difference between purchase and resale price is treated as interest income using the effective yield method.

Acceptances

Acceptances have been considered within the scope of IAS 39 *(Financial Instruments: Recognition and Measurement)* and are recognised as financial liability in the consolidated balance sheet with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

Financial guarantees

Financial guarantees are contracts that require the Bank to make specified payments to reimburse the holder for a loss it incurs because a specified party fails to meet its obligation when due in accordance with the contractual terms.

Financial guarantees are initially recognised at their fair value, which is the premium received on issuance. The received premium is amortised over the life of the financial guarantee. The guarantee liability (the notional amount) is subsequently recognised at the higher of this amortised amount and the present value of any expected payments (when a payment under guarantee has become probable). The premium received on these financial guarantees is included within other liabilities.

Recognition and de-recognition of financial instruments

The Bank recognises a financial asset or liability in its consolidated balance sheet only when it becomes party to the contractual provisions of that instrument. Financial assets are derecognised when the right to receive cash flows from the assets has expired or when the Bank has transferred its contractual right to receive the cash flows of the financial assets, and substantially all the risks and rewards of ownership, or where control is not retained. Financial liabilities are derecognised when they are extinguished - that is when the obligation specified in the contract is discharged, cancelled or expires.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated balance sheet only when there is a legally enforceable right to set off the recognised amounts and when the Bank intends to settle either on a net basis, or to realise the asset and settle the liability simultaneously.

Fiduciary assets

Assets held in trust or in a fiduciary capacity are not treated as assets of the Bank and accordingly are not included in these consolidated financial statements.

Taxation

Provision is made for current and deferred taxes arising from operating results of overseas branches in accordance with the fiscal regulations of the countries in which the Bank operates.

Revenue and expense recognition

Interest income and expense and loan commitment fees are recognised on a time proportion basis, taking into account the principal outstanding and the rate applicable. Commission and fee income are generally accounted for on the date the transaction arises. Interest accruing on loans and advances considered doubtful is excluded from income until received. Subsequently, notional interest is recognised on doubtful loans and advances and other financial assets based on the rate used to discount the net present value of future cash flows. Other fees receivable or payable are recognised when earned. Dividend income is recognised when the right to receive payment is established.

Gain or loss on trading and investment securities comprises all gains and losses from changes in the fair value of held for trading securities and gains or losses on disposal of investment securities. Gain or loss on disposal of trading and held to maturity investments represents the difference between the sale proceeds and the carrying value of such investments on the date of sale less any associated selling costs. Gain or loss on disposal of available for sale investments represents the difference between sale proceeds and their original cost less associated selling costs.

Dividend revenue from investments is recognised when the Bank's right to receive payments has been established.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

2 Significant accounting policies (continued)

Foreign currencies

Transactions in currencies other than AED are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies are revalued at the rates prevailing on the consolidated balance sheet date. Profits and losses arising on exchange are included in the consolidated income statement.

The assets and liabilities of the Bank's overseas operations are translated at exchange rates prevailing on the consolidated balance sheet date. Income and expense items are translated at the average exchange rates for the year. Exchange differences arising, if any, are classified as equity and transferred to the Bank's retained earnings. Such translation differences are recognised as income or as expense in the year in which the operation is disposed of.

Trade and settlement date accounting

The "regular way" purchases and sales of financial assets are recognised on the settlement date basis i.e. the date that the Bank physically receives or transfers the assets. Regular way purchases or sales are those that require delivery of assets within the time frame generally established by regulation or convention in the market place. Any significant change in the fair value of assets which the Bank has committed to purchase at the consolidated balance sheet date is recognised in the consolidated income statement for assets classified as held for trading and in the consolidated statement of changes in equity for assets classified as available for sale.

3 Critical accounting judgments and key sources of estimation of uncertainty

While applying the accounting policies as stated in Note 2, the management of the Bank has made certain judgments. These judgments mainly have a significant effect on the carrying amounts of loans and advances, investment securities and the fair values of derivative financial instruments. The significant judgments made by the management in arriving at the carrying amounts of loans and advances, investment securities and fair values of derivative financial instruments are summarised as follows:

Loans and advances

The allowance for loan losses is established through charges to the consolidated income statement in the form of an allowance for doubtful loans and advances. Increases and decreases in the allowance due to changes in the measurement of the impaired loans are included in the allowance for doubtful loans and advances and affect the consolidated income statement accordingly.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

3 Critical accounting judgments and key sources of estimation of uncertainty (continued)

Individually assessed loans

Impairment losses for individually assessed loans are determined by an evaluation of exposure on a case-by-case basis. This procedure is applied to all classified corporate loans and advances which are individually significant accounts or are not subject to the portfolio-based-approach.

The following factors are considered by management when determining allowance for impairment on individual loans and advances which are significant:

- The amount expected to be realised on disposal of collaterals.
- The Bank's ability to enforce its claim on the collaterals and associated cost of litigation.
- The expected time frame to complete legal formalities and disposal of collaterals.

The Bank's policy requires regular review of the level of impairment allowances on individual facilities and regular valuation of the collateral and its enforceability.

Impaired loans continue to be classified as impaired unless they are brought fully current and the collection of scheduled interest and principal is considered probable.

Collectively assessed loans

Collective assessment of allowance for impairment is made for overdue retail loans with common features which are not individually significant and performing loans which are not found to be individually impaired.

The following factors are considered by management when determining allowance for impairment for such loans:

Retail loans – All the loans falling under similar overdue category are assumed to carry similar credit risk and allowance for impairment is taken on a gross basis.

Other performing loans – The management of the Bank assesses, based on historical experience and the prevailing economic and credit conditions, the magnitude of loans which may be impaired but not identified as of the consolidated balance sheet date.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

3 Critical accounting judgments and key sources of estimation of uncertainty (continued)

Fair value of unquoted financial instruments

The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however; areas such as credit risk (both own and counter party), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Impairment of available-for-sale investments

The Bank exercises judgment to consider impairment on the available-for-sale investments. This includes determination of a significant or prolonged decline in the fair value below its cost. In making this judgment, the Bank evaluates among other factors, the normal volatility in market price. In addition, the Bank considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When independent prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

a) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgement may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

b) An appropriate discount rate for the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

4 Cash and balances with Central Banks

	2007 AED'000	2006 AED'000
Cash on hand	**367,461**	331,813
Balances with Central Banks	**2,290,127**	1,566,644
Certificate of deposits with Central Bank	**13,000,000**	-
	15,657,588	1,898,457

5 Deposits and balances due from banks

	2007 AED'000	2006 AED'000
Current and demand deposits	**60,366**	46,242
Placements	**5,969,998**	10,018,967
	6,030,364	10,065,209

6 Trading securities

	2007 AED'000	2006 AED'000
Fair value:		
Quoted fund	**122,278**	77,008
Mutual funds	**155**	622
	122,433	77,630

Trading securities represent investments in funds that present the Bank with an opportunity of return through dividend income and trading gains. They have no fixed maturity or coupon rate. The fair values of these securities are based on the net asset values provided by the Funds' managers.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

7 Loans and advances, net

	2007 AED'000	2006 AED'000
Overdrafts (Retail and Corporate)	**14,021,744**	15,438,771
Retail loans	**7,122,069**	5,085,866
Corporate loans	**53,033,990**	39,761,248
Credit cards	**685,182**	459,405
Other facilities	**1,963,054**	2,662,241
	76,826,039	63,407,531
Less: Allowance for impairment	**(1,149,957)**	(982,882)
	75,676,082	62,424,649

Loans and advances are summarised as follows:

	2007 AED'000	2006 AED'000
Performing loans	**75,635,272**	55,473,932
Other loans exceptionally monitored	**135,352**	6,755,754
Non performing loans	**1,055,415**	1,177,845
	76,826,039	63,407,531
Less: Allowance for impairment	**(1,149,957)**	(982,882)
	75,676,082	62,424,649

Loans and advances include an interest free loan to the Government of Abu Dhabi ("Government") of AED 609,480 thousand (2006 – AED 667,680 thousand). This loan arose as a result of the Government acquiring certain non-performing loans which were previously indemnified by the Government through a guarantee.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

7 Loans and advances, net (continued)

	Overdrafts		Retail						
	Retail AED'000	Corporate AED'000	Personal loans AED'000	Auto loans AED'000	Retail others AED'000	Credit cards AED'000	Corporate loans AED'000	Corporate others AED'000	Total AED'000
At December 31, 2007									
Performing loans	528,801	12,891,036	3,375,165	1,127,343	2,277,135	617,549	52,855,189	1,963,054	75,635,272
Other loans exceptionally monitored	80	79,208	9,302	9,984	10,282	-	26,496	-	135,352
Non performing loans	7,677	514,942	259,916	25,784	27,158	67,633	152,305	-	1,055,415
	536,558	13,485,186	3,644,383	1,163,111	2,314,575	685,182	53,033,990	1,963,054	76,826,039

	Overdrafts		Retail						
	Retail AED'000	Corporate AED'000	Personal loans AED'000	Auto loans AED'000	Retail others AED'000	Credit cards AED'000	Corporate loans AED'000	Corporate others AED'000	Total AED'000
At December 31, 2006									
Performing loans	90,382	8,457,185	2,978,148	798,848	1,030,397	411,947	39,044,784	2,662,241	55,473,932
Other loans exceptionally monitored	1,298	6,402,353	7,064	7,367	5,594	-	332,078	-	6,755,754
Non performing loans	6,640	480,913	244,423	3,460	10,565	47,458	384,386	-	1,177,845
	98,320	15,340,451	3,229,635	809,675	1,046,556	459,405	39,761,248	2,662,241	63,407,531

The value of collateral that the Bank holds relating to loans and advances as of December 31, 2007 with the collateral classes is as follows:

	Guarantees AED'000	Vehicles and machinery AED'000	Property and mortgages AED'000	Deposits AED'000	Other assignments AED'000	Total AED'000
Fair value of collaterals	11,704,286	526,988	28,433,310	596,921	13,754,059	55,015,564

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

7 Loans and advances, net (continued)

Movement of the individual and collective allowances for impairment on loans and advances is as follows:

	2007			2006		
	Individual impairment AED'000	Collective impairment AED'000	Total AED'000	Individual impairment AED'000	Collective impairment AED'000	Total AED'000
At January 1	659,229	323,653	982,882	523,511	190,589	714,100
Charge for the year	177,861	117,439	295,300	204,301	134,992	339,293
Recoveries	(151,937)	-	(151,937)	(145,823)	-	(145,823)
Net amounts written back/(off)	27,160	(7,855)	19,305	76,598	(1,987)	74,611
Currency translation	4,179	228	4,407	642	59	701
At December 31	716,492	433,465	1,149,957	659,229	323,653	982,882

The composition of the loans and advances portfolio net of interest in suspense is as follows:

	2007			2006		
	Domestic AED'000	International AED'000	Total AED'000	Domestic AED'000	International AED'000	Total AED'000
Economic sector						
Agriculture	14,612	-	14,612	20,401	-	20,401
Energy	215,039	701,989	917,028	736,397	678,915	1,415,312
Trading	2,936,837	17,662	2,954,499	2,455,022	189,288	2,644,310
Construction	5,421,476	183,011	5,604,487	1,906,587	16,958	1,923,545
Transport	2,037,553	1,286,206	3,323,759	2,686,597	432,461	3,119,058
Personal	7,597,731	965,455	8,563,186	9,314,160	807,087	10,121,247
Personal – Retail loans	7,489,192	6,660	7,495,852	4,744,689	8,208	4,752,897
Personal – Loans against shares	10,479,289	-	10,479,289	11,943,790	-	11,943,790
Government	1,740,981	-	1,740,981	2,837,996	-	2,837,996
Financial Institution	14,249,678	2,111,759	16,361,437	7,361,006	2,486,488	9,847,494
Manufacturing	1,449,994	1,147,421	2,597,415	1,551,050	413,615	1,964,665
Services	12,592,077	3,120,556	15,712,633	9,356,043	2,609,229	11,965,272
Others	1,024,131	36,730	1,060,861	814,814	36,730	851,544
Total	67,248,590	9,577,449	76,826,039	55,728,552	7,678,979	63,407,531
Less: Allowance for impairment			(1,149,957)			(982,882)
Total			75,676,082			62,424,649

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

8 Derivative financial instruments

In the ordinary course of business the Bank enters into various types of transactions that involve variables. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in the price of one or more underlying financial instrument, reference rate or index. Derivative financial instruments, which the Bank enters into includes forwards, options, futures and swaps.

The Bank uses the following derivative financial instruments for both hedging and non-hedging purposes.

Forward currency transactions

Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Foreign currency and interest rate futures are contractual obligations to receive or pay a net amount based on changes in currency rates or interest rates, or to buy or sell foreign currency or a financial instrument on a future date at a specified price, established in an organised financial market. The credit risk is negligible, as futures contracts are collateralised by cash or marketable securities, and changes in the futures' contract value are settled daily with the exchange. Forward rate agreements are individually negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.

Swap transactions

Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (i.e., cross-currency interest rate swaps). No exchange of principal takes place, except for certain cross currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfil their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

Option transactions

Foreign currency and Interest rate options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, either to buy (a call option) or sell (a put option) at or by a set date or during a set period, a specific amount of a foreign currency or a financial instrument at a predetermined price. The seller receives a premium from the purchaser in consideration for the assumption of foreign exchange or interest rate risk. Options may be either exchange-traded or negotiated between the Bank and a customer over the counter (OTC).

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

8 Derivative financial instruments (continued)

The fair values of derivative financial instruments held are set out below.

	Fair values	
	Assets AED'000	**Liabilities AED'000**
At December 31, 2007		
Derivatives held for trading		
Forward foreign exchange contracts	**126,498**	**171,556**
Interest rate swaps and forward rate agreements	**1,599,877**	**1,641,097**
Options	**414,199**	**387,675**
Futures	**1,826**	**1,216**
Commodity forwards	**228,794**	**206,477**
Energy swaps	**5,248**	**5,248**
	2,376,442	**2,413,269**
Derivatives held for hedging	**691,800**	**-**
	3,068,242	**2,413,269**
At December 31, 2006		
Derivatives held for trading		
Forward foreign exchange contracts	220,002	228,476
Interest rate swaps and forward rate agreements	470,760	502,172
Options	58,713	41,149
Futures	-	182
Commodity forwards	33,363	13,175
Energy swaps	20,879	20,879
	803,717	806,033
Derivatives held for hedging	194,827	-
	998,544	806,033

The derivatives held for hedging consist of interest rate swaps and cross currency swaps. These derivatives are treated as fair value hedges.

Notes to the consolidated financial statements
for the year ended December 31, 2007 (continued)

8 Derivative financial instruments (continued)

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. The Bank enters into derivative contracts with a number of financial institutions of good credit rating.

Derivatives held or issued for trading purposes

The Bank's trading activities mostly relate to offering hedging solutions to customers at competitive prices in order to enable them to transfer, modify or reduce current and expected risks. The Bank also manages risk taken as a result of client transactions or initiates positions with the expectation of profiting from favourable movement in prices, rates or indices.

Derivatives held or issued for hedging purposes

The Bank uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange and interest rates. The Bank uses forward foreign exchange contracts, cross currency swaps and interest rate swaps to hedge exchange rate and interest rate risks. The Bank also uses interest rate swaps to hedge against the fair value risks arising on certain fixed rate financial instruments. In all such cases the hedging relationship and objective, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for as fair value hedges.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

9 Investment securities

	2007 AED'000	2006 AED'000
Available for sale investments		
Quoted:		
Floating rate notes (FRN)	**788,522**	221,185
Collateralised debt obligations (CDO)	**649,720**	968,414
Equity instruments	**128,399**	75,456
UAE bonds	**1,016,780**	1,404,042
Others	**200,806**	154,592
	2,784,227	2,823,689
Unquoted:		
Floating rate notes (FRN)	**180,205**	495,469
Collateralised debt obligations (CDO)	**36,730**	-
Equity instruments	**246,286**	111,168
Others	**30,625**	8,308
	493,846	614,945
Gross total	**3,278,073**	3,438,634
Allowance for impairment	**(378,512)**	-
	2,899,561	3,438,634
Held to maturity		
Floating rate notes (FRN)	**183,650**	262,110
Allowance for impairment	**(115,023)**	-
	68,627	262,110
	2,968,188	3,700,744

The fair value of held to maturity investments at December 31, 2007 approximates its carrying value less impairment allowance.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

9 Investment securities (continued)

The movement in investment securities is summarised as follows:

	Available for sale AED'000	Held to maturity AED'000	Total AED'000
At January 1, 2007	3,438,634	262,110	3,700,744
Additions	1,141,500	-	1,141,500
Disposals and fair value adjustments	(1,302,061)	(78,460)	(1,380,521)
Impairment losses	(378,512)	(115,023)	(493,535)
At December 31, 2007	**2,899,561**	**68,627**	**2,968,188**

The following is the movement in the allowance for impairment:

	2007 AED'000	2006 AED'000
At January 1	-	-
Provided on Available for Sale investments	**(378,512)**	-
Provided on Held to Maturity investments	**(115,023)**	-
At December 31	**(493,535)**	-

The investment securities include AED 1,796,140 thousand in Structured Investment Vehicles (SIVs) and other Structured Finance Assets, such as Collateralized Debt Obligations (CDOs), which are dependent on the performance of collateral located outside UAE, primarily assets in the USA and Western Europe. The Bank's exposure in SIVs and Asset Backed Securities (ABS) CDOs a total of AED 953,130 thousand are negatively impacted by the downfall in USA sub prime and the subsequent liquidity crisis. The Bank has made portfolio provisions for impairment amounting to AED 493,535 thousand against the exposed SIVs and ABS CDOs.

The sub-prime crisis and the attendant liquidity crisis that followed led to a significant decline in both the indicative and economic value of the ABS CDO investments. In addition, the SIV securities have been impacted by the lack of liquidity and general credit concerns for structured finance investments. The indicative values provided by the arranging financial institutions of these investment securities are considerably influenced by the general illiquid conditions prevailing in the market. As a result of the dislocation in market conditions the Bank adopted a portfolio impairment approach for these investment securities .

To obtain an arm's length fair valuation of these securities, the Bank appointed two independent external valuers "Clayton" and "Prytania' to assess the economic value of these investment securities.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

9 Investment securities (continued)

These independent external valuers conducted a detailed economic analysis of the underlying assets with respect to these securities. This included assessing the integrity and performance of the collateral, as well as the validity of inputs and assumptions used in modeling. The key valuation fields used in the analysis were as follows:

- Future expected prepayments speed (Constant Prepayment Rate) from the collateral pool; assessed on an individual bond basis;
- Future expected default rate (Constant Default Rate) for the collateral pool, assessed on an individual bond basis;
- Delinquency trigger – Value used in relation to structure based trigger thresholds;
- Run to call – determination of the likelihood of the underlying bonds and structure bond being called at some point of time in the future;
- Current expected weighted average life (WAL) – projected weighted average life of the bond based on model results ;
- Principal Window – timing when principal payments are expected to be received;
- Current expected loss severity – percentage of loss for the underlying collateral pool supporting each bond; and
- Principal loss or write-downs – month/year window that principal losses and or write-downs are expected to be received per model input.

These valuation models have indicated that while some of these investments are not currently impaired, they are likely to be impaired under stress testing conditions.

The portfolio impairment provisions represents the anticipated loss estimated by the Bank across the portfolio of ABS CDOs and SIVs, investments in the near to medium term.

While the majority of these investments continue to pay coupons, the evaluations have indicated that they are likely to become permanently impaired and or will experience some actual economic losses in the near to medium term.

The maximum exposure to credit risk on investment securities is limited to the carrying value of these investments. The Bank monitors the credit ratings of the counter parties with whom the investments are placed on a regular basis.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

9 Investment securities (continued)

The Bank's investment portfolio consists of investments rated by credit rating agencies, as follows:

Ratings	2007 %	2006 %
AAA	**6.38**	1.70
AA	**18.89**	16.76
A	**17.21**	11.27
BBB	**16.66**	17.21
BB	**6.72**	5.96
B	**4.26**	4.26
CCC	**6.81**	-
Unrated	**23.07**	42.84
Total	**100**	100

10 Investment properties

	2007 AED'000	2006 AED'000
At January 1	-	-
Additions	**150,369**	-
Increase in fair value of investment properties	**295,361**	-
At December 31	**445,730**	-

The fair value of the Bank's investment properties have been arrived at on the basis of valuations carried out by independent valuers that are not related to the Bank. The fair value of investment properties is estimated by considering recent prices for similar properties in the same location and similar condition, with adjustments to reflect any changes in the nature, location or economic conditions since the date of the transactions that occurred at these prices. The effective date of the valuation is December 31, 2007.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

11 Other assets

	2007	2006
	AED'000	AED'000
Interest receivable	**664,718**	574,598
Withholding taxation	**37,937**	86,062
Advance paid for purchase of investment	**93,662**	-
Prepayments	**126,867**	108,072
Clearing receivables	**180,448**	190,461
Acceptances	**493,120**	290,178
Others	**155,969**	161,750
	1,752,721	1,411,121

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

12 Property and equipment, net

	Freehold properties AED'000	Leasehold properties AED'000	Furniture, equipment and vehicles AED'000	Computer equipment and accessories AED'000	Capital work in progress AED'000	Total AED'000
Cost or valuation						
At January 1, 2006	206,082	28,997	58,181	139,430	184,738	617,428
Exchange difference	86	1	121	-	-	208
Additions during the year	1,930	476	2,609	4,449	140,312	149,776
Transfers	234,228	1,470	18,363	27,641	(281,702)	-
Disposals	-	(4)	(181)	-	-	(185)
At January 1, 2007	**442,326**	**30,940**	**79,093**	**171,520**	**43,348**	**767,227**
Exchange difference	-	593	751	50	-	1,394
Additions during the year	20,328	668	4,394	6,444	61,192	93,026
Transfers	(48,978)	24,935	8,822	13,158	(62,770)	(64,833)
Transfer to expenses	-	-	-	-	(2,511)	(2,511)
Disposals	(500)	-	-	-	-	(500)
At December 31, 2007	**413,176**	**57,136**	**93,060**	**191,172**	**39,259**	**793,803**
Accumulated depreciation						
At January 1, 2006	101,361	11,671	44,660	56,544	-	214,236
Exchange difference	2	2	74	-	-	78
Charge for the year	14,612	2,828	6,752	16,872	-	41,064
Disposals	-	(2)	(173)	-	-	(175)
At January 1, 2007	**115,975**	**14,499**	**51,313**	**73,416**	-	**255,203**
Exchange difference	-	22	674	37	-	733
Charge for the year	17,633	3,111	9,341	20,167	-	50,252
Transfers	(4,540)	-	-	-	-	(4,540)
Disposals	(346)	-	-		-	(346)
At December 31, 2007	**128,722**	**17,632**	**61,328**	**93,620**	-	**301,302**
Carrying amount						
At December 31, 2007	**284,454**	**39,504**	**31,732**	**97,552**	**39,259**	**492,501**
At December 31, 2006	326,351	16,441	27,780	98,104	43,348	512,024

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

13 Due to banks

	2007 AED'000	2006 AED'000
Current and demand deposits	**227,825**	171,848
Deposits maturing within one year	**5,037,024**	7,781,998
Deposits maturing after one year	**333,527**	16,341
	5,598,376	7,970,187

14 Customers' deposits

	2007 AED'000	2006 AED'000
By category :		
Call and demand deposits	**13,347,838**	9,725,428
Savings deposits	**1,114,235**	1,007,336
Time deposits	**34,206,630**	27,736,917
Long term government deposits	**609,480**	667,680
Islamic product related deposits	**4,660,216**	35,602
Euro commercial paper	**3,222,421**	4,223,888
	57,160,820	43,396,851
By sector :		
Retail	**17,755,863**	14,621,054
Corporate	**31,096,356**	23,361,607
Government	**8,308,601**	5,414,190
	57,160,820	43,396,851

The Euro commercial papers are issued globally with the majority issued in the United Kingdom and other countries of Europe.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

15 Short and medium term borrowings

The details of short and medium term borrowings as at December 31, 2007 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	Over 3 years AED'000	Total AED'000
Unsecured notes	Australian Dollar (AUD)	145,732	-	161,924	**307,656**
	Euro (EUR)	-	270,829	-	**270,829**
	Hong Kong Dollar (HKD)	47,083	-	141,249	**188,332**
	Japanese Yen (JPY)	-	-	164,113	**164,113**
	New Zealand Dollar (NZD)	42,751	-	-	**42,751**
	Pound Sterling (GBP)	-	-	3,669,970	**3,669,970**
	Slovak Koruna (SKK)	-	-	120,828	**120,828**
	South African Rand (ZAR)	-	-	53,985	**53,985**
	Swiss Franc (CHF)	170,046	490,518	981,037	**1,641,601**
	Turkish Lira (TRL)	-	-	116,665	**116,665**
	UAE Dirham (AED)	1,200,000	2,765,000	1,753,000	**5,718,000**
	US Dollar (US$)	183,650	3,985,205	36,730	**4,205,585**
		1,789,262	7,511,552	7,199,501	**16,500,315**
Syndicated loan	US Dollar (US$)	-	3,673,000	5,509,500	**9,182,500**
Subordinated floating rate notes	US Dollar (US$)	-	-	1,469,200	**1,469,200**
		1,789,262	11,184,552	14,178,201	**27,152,015**
Fair value adjustment of cross currency swap					**218,249**
					27,370,264

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

15 Short and medium term borrowings (continued)

The details of short and medium term borrowings as at December 31, 2006 are as follows:

Instrument	Currency	Within 1 year AED'000	1-3 years AED'000	Over 3 years AED'000	Total AED'000
Unsecured notes	Euro (EUR)	106,664	-	-	106,664
	Hong Kong Dollar (HKD)	311,673	-	47,223	358,896
	Japanese Yen (JPY)	46,275	-	154,250	200,525
	New Zealand Dollar (NZD)	64,682	-	-	64,682
	Pound Sterling (GBP)	-	-	3,595,592	3,595,592
	Swiss Franc (CHF)	-	156,792	904,568	1,061,360
	Turkish Lira (TRL)	-	-	96,295	96,295
	UAE Dirham (AED)	-	365,000	1,000,000	1,365,000
	US Dollar (US$)	459,125	422,395	3,709,730	4,591,250
		988,419	944,187	9,507,658	11,440,264
Syndicated loan	US Dollar (US$)	-	3,673,000	-	3,673,000
Subordinated floating rate notes	US Dollar (US$)	-	-	1,469,200	1,469,200
		988,419	4,617,187	10,976,858	16,582,464
Fair value adjustment of cross currency swap					27,730
					16,610,194

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

15 Short and medium term borrowings (continued)

Interest on unsecured notes are payable quarterly in arrears and the coupon rates are as follows:

Currency	Within 1 year	1-3 years	Over 3 years
AUD	3 months AUD-BBSW plus 10 basis points	-	3 months AUD-BBSW plus 30 basis points
EUR	-	3 months LIBOR plus 22 basis points	-
HKD	Fixed rate of 4.49% p.a.	-	3 months HKD offer rate plus 29 to 35 basis points
JPY	-	-	Fixed rate of 1.66% p.a.
NZD	Fixed rate of 8% p.a.	-	-
GBP	-	-	Fixed rate of 5.625% p.a.
SKK	-	-	3 months BRIBOR plus 11 basis points
ZAR	-	-	3 months JIBAR plus 41 basis points
CHF	3 months LIBOR plus 70 basis points	3 months LIBOR plus 10 basis points	Fixed rate of 2.76% p.a.
TRY	-	-	Fixed rate of 12.75% p.a.
AED	3 months EIBOR plus 10 basis points & fixed rates of 4.855% to 5% p.a.	3 months EIBOR plus 22 to 52 basis points	Fixed rate of 6% p.a.
USD	3 months LIBOR plus 5 basis points	Fixed rate of 5.25% p.a. & 3 months LIBOR plus 24 to 35 basis points	3 months LIBOR plus 30 basis points

Interest on the syndicated loan is payable quarterly in arrears at a coupon rate of 27.5 basis points above LIBOR for three months US dollar deposits. The Bank has the option to roll over the syndicated loan for a further period of two years from the date of maturity.

Interest on the subordinated floating rate notes is payable quarterly in arrears at a coupon rate of 60 basis points over LIBOR for three months US Dollar deposits.

The subordinated floating rate notes were obtained from financial institutions outside of UAE and qualify as Tier 2 subordinated loan capital for the first 5 year period till 2011 and thereafter it will be amortised at the rate of 20% per annum till 2016 for capital adequacy calculation (note 37) if these are not redeemed during 2011. This has been approved by the Central Bank of United Arab Emirates.

The Bank also has an unsecured standby facility of US$ 850,000 thousand (31 December 2006 – US$ 1,000,000 thousand) from a consortium of banks with a drawdown period of one year.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

16 Other liabilities

	2007 AED'000	2006 AED'000
Interest payable	**547,742**	376,662
Employees' end of service benefits	**67,610**	64,804
Accounts payable and other creditors	**24,824**	37,446
Clearing payables	**347,627**	289,411
Deferred income	**104,123**	139,279
Acceptances	**493,120**	290,178
Others	**674,331**	383,155
	2,259,377	1,580,935

Acceptances arise when the Bank guarantees payments against documents drawn under letters of credit issued.

17 Share capital

	Authorised	**Issued and fully paid**	
		2007	2006
	AED'000	**AED'000**	AED'000
Ordinary shares of AED 1 each	4,000,000	**4,000,000**	4,000,000

	2007		2006	
	Number of shares	**AED'000**	Number of shares	AED'000
As of December 31	**4,000,000,000**	**4,000,000**	4,000,000,000	4,000,000

During 2006, Abu Dhabi Investment Authority's holding of 64.841% of the Bank's issued and fully paid up share capital was transferred to Abu Dhabi Investment Council by Law No.16 of 2006. The shareholders of the Bank approved this share transfer at the extra ordinary general assembly meeting of the Bank held on March 18, 2007.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

18 Statutory and other reserves

Statutory reserve

As required by Article 82 of Union Law No 10 of 1980, 10% of the net profit for the year is transferred to the statutory reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. The statutory reserve is not available for distribution.

Legal reserve

In accordance with the U.A.E. Federal Commercial Companies Law No. 8 of 1984 (as amended) and Article 84 of the Memorandum and Articles of Association of the Bank, 10% of the net profit for the year is transferred to the legal reserve. The Bank may resolve to discontinue such annual transfers when the reserve equals 50% of the nominal value of the paid up share capital. The legal reserve is not available for distribution.

General reserve

Transfers to the general reserve are made upon the recommendation of the Board of Directors. This reserve may only be used for the purposes recommended by the Board of Directors and approved by the shareholders.

Contingency reserve

The contingency reserve is established to cover unforeseen future risks or contingencies which may arise from general banking risks.

19 Proposed dividends

For the year ended December 31, 2007, the Board of Directors have proposed to pay a cash dividend of AED 1,210,000 thousand (2006 : cash dividend of AED 1,210,000 thousand) representing 30.25% of the paid up capital. This is subject to the approval of the shareholders in the Annual General Meeting.

20 Interest income

	2007 **AED'000**	2006 AED'000
Loans and advances to banks	**960,059**	652,306
Loans and advances to customers	**4,824,081**	3,307,888
Investment securities	**208,084**	167,414
	5,992,224	4,127,608

Interest income from investment securities includes an amount of AED 13,086 thousand (2006 – AED 21,310 thousand) generated from Held to Maturity investments which are carried at amortised cost.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

21 Interest expense

	2007 AED'000	2006 AED'000
Deposits from banks	**372,426**	233,816
Deposits from customers	**2,059,636**	1,509,840
Debt securities issued and subordinated liabilities	**1,246,047**	591,740
Others	**25,700**	18,221
	3,703,809	2,353,617

There is no interest expense reported above that is incurred in relation to financial liabilities carried at fair value through profit or loss.

22 Net fee and commission income

	2007 AED'000	2006 AED'000
Fee and commission income		
Retail banking fees	**310,995**	238,759
Corporate banking fees	**354,229**	184,407
Investment banking fees	**96,214**	57,657
Brokerage fees	**37,612**	34,412
Fee from trust and other fiduciary activities	**83,236**	75,679
Initial public offering fee income	**2,523**	547,201
Other fees	**13,153**	-
Total fee and commission income	**897,962**	1,138,115
Fee and commission expenses	**(24,002)**	(8,869)
Net fee and commission income	**873,960**	1,129,246

23 Net gains from dealing in foreign currencies

Net gains from dealing in foreign currencies include net trading income, gains and losses from spot and forward contracts, options, futures, and exchange difference arising on translation of monetary foreign currency assets and liabilities of the Bank.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

24 Gain/(loss) on trading and investment securities

	2007 AED'000	2006 AED'000
Gain/(loss) on trading securities	**45,295**	(39,691)
Gain on sale of available for sale investments	**60,161**	11,467
	105,456	(28,224)

25 Basic earnings per share

Basic earnings per share is calculated by dividing the net profit for the year attributable to the equity holders of the parent by the weighted average number of shares outstanding during the year as follows:

	2007	2006
Net profit for the year attributable to the equity holders of the Bank (AED'000)	**1,987,518**	2,081,617
Weighted average number of shares in issue during the year (000's)	**4,000,000**	4,000,000
Basic earnings per share (AED)	**0.50**	0.52

The Bank has not issued any instruments which would have an impact on earnings per share when exercised.

26 Taxation

Taxation resulting from Indian branches' operations is calculated as per taxation law applicable in India.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

27 Cash and cash equivalents

Cash and cash equivalents included in the consolidated statement of cash flows comprise the following balance sheet amounts:

	2007 AED'000	2006 AED'000
Cash and balances with Central Banks	**15,657,588**	1,898,457
Due from banks	**6,030,364**	10,065,209
Due to banks	**(5,598,376)**	(7,970,187)
	16,089,576	3,993,479
Less: Due from banks – maturity more than 3 months	**(740,073)**	(2,734,158)
Add: Due to banks – maturity more than 3 months	**2,502,386**	177,509
	17,851,889	1,436,830

28 Related party transactions

The Bank enters into transactions with major shareholders, directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

Transactions between the Bank and its subsidiaries have been eliminated on consolidation and are not disclosed in this note.

The related parties balances included in the consolidated balance sheet are as follows:

	2007 AED'000	2006 AED'000
Loans and advances :		
To Directors	**106,035**	33,662
To Key Managers	**10,886**	2,369
	116,921	36,031
Customers' deposits :		
From Directors	**18,077**	37,104
From major shareholders	**4,497,667**	3,673,000
From Key Managers	**6,863**	5,067
	4,522,607	3,715,171

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

28 Related party transactions (continued)

The related parties balances included in the consolidated balance sheet are as follows (continued):

	2007 AED'000	2006 AED'000
Investments in funds managed by the Bank – at fair values:		
Held for trading securities	**122,278**	77,008
Available for sale investments	**30,625**	6,250
	152,903	83,258
Irrevocable commitments and contingencies:		
To Directors	**76,291**	74,859

Significant transactions with related parties during the year are as follows:

	2007 AED'000	2006 AED'000
Interest, fees and commission income:		
- Directors	**2,775**	3,201
- Key Managers	**128**	101
- Trust Activities	**70,407**	42,163
- Gain on disposal of available for sale investments	**26,585**	-
	99,895	45,465
Interest expense:		
- Directors	**404**	212
- Major shareholders	**166,151**	175,726
- Key Managers	**12**	98
	166,567	176,036

The remuneration of key management staff during the year was as follows:

	2007 AED'000	2006 AED'000
Short term benefits	**36,102**	32,814

The remuneration of Directors is accrued and paid as an appropriation from the net profit of the year in accordance with the Federal Law No 8 applicable to Commercial Companies operating in the U.A.E. This amount is included in the short term benefits shown above.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

29 Commitments and contingent liabilities

The Bank had the following commitments and contingent liabilities at December 31:

	2007 AED'000	2006 AED'000
Commitments on behalf of customers		
Letters of credit	**5,893,930**	2,931,974
Guarantees	**14,760,040**	13,312,039
Irrevocable commitments to extend credit	**31,578,427**	21,773,655
Credit default swaps	**3,221,685**	1,153,322
	55,454,082	39,170,990
Others		
Commitments for future capital expenditure	**56,980**	53,152
Commitments to invest in investment securities	**93,580**	8,647
	55,604,642	39,232,789

Credit-related commitments

Credit-related commitments include commitments to extend credit, standby letters of credit, and guarantees which are designed to meet the requirements of the Bank's customers.

Commitments to extend credit represent contractual commitments to make loans and advances and revolving credits. Commitments generally have fixed expiry dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit and guarantees commit the Bank to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract. These contracts would have market risk if issued or extended at a fixed rate of interest. However, these contracts are primarily made at floating rates.

Credit default swap means a security with a risk level and pricing based on the risk of credit default by one or more underlying security issuers. Credit default contracts include credit default swaps, credit default index contracts, credit default options and credit default basket options. Credit default contracts are also used as part of the mechanism behind many collateralized debt obligations; in these cases, the contracts may have unique covenants that exclude company events, such as a debt restructuring as a "credit event".

The Bank's estimated total exposure in credit default swaps which are linked to the Sub-prime crisis amounted to AED 147,000 thousand. The Bank has provided an amount of AED 66,060 thousand (2006 – AED Nil) towards expected calls against these impaired credit default swaps based on the external valuers reports and recommendations as discussed in Note 9.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

30 Segmental information

Primary segment information

For operating purposes, the Bank is organised into two major business segments: (i) Commercial Banking, which principally provides loans and other credit facilities, deposit and current accounts for the Bank's customers, brokerage, and fund managing activities and (ii) Investment Banking, which involves the management of the Bank's investment portfolio, dealing in derivatives and treasury activities. These segments are the basis on which the Bank reports its primary segment information. Transactions between segments are conducted at rates determined by management taking into consideration the cost of funds.

Segmental information for the year was as follows:

	Commercial Banking		Investment Banking		Total	
	2007	2006	**2007**	2006	**2007**	2006
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Operating income	**3,320,481**	2,685,841	**479,393**	411,337	**3,799,874**	3,097,178
Segment result and profit from operations	**2,214,145**	1,860,348	**(125,859)**	289,481	**2,088,286**	2,149,829
Minority interest	**-**	-	**(97,412)**	(65,582)	**(97,412)**	(65,582)
Net profit before income tax	**2,214,145**	1,860,348	**(223,271)**	223,899	**1,990,874**	2,084,247
Income tax expense Unallocated					**(3,356)**	(2,630)
Net profit for the year					**1,987,518**	2,081,617
Other information						
Segment assets	**77,875,154**	64,914,378	**28,338,695**	16,174,000	**106,213,849**	81,088,378
Segment liabilities	**66,331,380**	54,190,200	**28,470,726**	16,174,000	**94,802,106**	70,364,200
Equity					**11,411,743**	10,724,178
Total liabilities and equity					**106,213,849**	81,088,378
Capital expenditure incurred during the year, net	**90,253**	139,170	**262**	10,606	**90,515**	149,776
Depreciation expense during the year	**45,884**	39,148	**4,368**	1,916	**50,252**	41,064

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

30 Segmental information (continued)

Secondary segment information

Although the Bank is organised primarily into business segments, the Bank operates in two geographic markets. The United Arab Emirates, which is designated as Domestic, represents the operations of the Bank which originate from the U.A.E. branches, and International which represents the operations of the Bank which originate from its branches in India. The following table shows the distribution of the Bank's operating income, total assets, total liabilities and capital expenditure by geographical segment.

	Domestic		International		Total	
	2007	2006	**2007**	2006	**2007**	2006
	AED'000	AED'000	**AED'000**	AED'000	**AED'000**	AED'000
Operating income	**3,770,430**	3,081,697	**29,444**	15,481	**3,799,874**	3,097,178
Profit before taxation	**2,071,750**	2,142,920	**16,536**	6,909	**2,088,286**	2,149,829
Income tax expense		-	**(3,356)**	(2,630)	**(3,356)**	(2,630)
Minority interest	**(97,412)**	(65,582)	-	-	**(97,412)**	(65,582)
Net profit for the year	**1,974,338**	2,077,338	**13,180**	4,279	**1,987,518**	2,081,617
Segment assets	**105,691,414**	80,430,668	**522,435**	657,710	**106,213,849**	81,088,378
Segment liabilities	**94,295,870**	69,710,769	**506,236**	653,431	**94,802,106**	70,364,200
Capital expenditure incurred during the year, net	**90,291**	149,616	**224**	160	**90,515**	149,776

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

31 Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter-parties, and continually assessing the creditworthiness of counter-parties. In addition to monitoring credit limits, the Bank manages the credit exposure relating to its trading activities by entering into master netting agreements and collateral arrangements with counter-parties in appropriate circumstances, and limiting the duration of exposure. In certain cases, the Bank may also close out transactions or assign them to other counter-parties to mitigate credit risk.

Concentrations of credit risk arise when a number of counter-parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

Management of credit risk

The Bank's credit risk management framework includes:

- Establishment of authorisation structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with authorisation structure and limits, prior to facilities being sanctioned to customers. Renewals and reviews of facilities are subject to the same review process;
- Diversification of lending and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with the risk management strategy and market trends.

The Risk Management Committee is responsible for sanctioning high value credits and the Credit Policy Committee is responsible for the formulation of credit policies and processes in line with growth, risk management and strategic objectives.

In addition, the Bank manages the credit exposure by obtaining security where appropriate and limiting the duration of exposure. Credit risk in respect of derivative financial instruments is limited to those with positive fair values.

Regular audits of business units and Bank credit processes are undertaken by the Internal Audit and Compliance Division.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

31 Credit risk (continued)

For details of the composition of the loans and advances portfolio refer to Note 7. Information on credit risk relating to derivative instruments is provided in Note 8.

Credit risk measurement

The Bank assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. They have been developed internally and combine statistical analysis with credit officer judgment and are validated, where appropriate, by comparison with externally available data.

The rating tools are kept under review and upgraded as necessary. The Bank regularly validates the performance of the rating and their predictive power with regard to default events.

The Bank also uses the external ratings like Standard & Poor's ("S&P"). As per the S&P report, the credit rating of the Bank is A / Stable / A-1

Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and Banks, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or banks of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review and by country are approved by the Board, when considered necessary. Limits on the level of credit risk by product, industry sector.

The exposure to any one borrower including banks and brokers is further restricted by sub-limits. Actual exposures against limits are monitored on a daily basis.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of securities for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Charges over business assets such as premises, inventory and accounts receivable;
- Charges over financial instruments such as debt securities and equities.

31 Credit risk (continued)

Risk limit control and mitigation policies (continued)

(b) Derivatives

The Bank maintains strict control limits on net open derivative positions (i.e. the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the current fair value of instruments that are favourable to the Bank (i.e. positive fair value of assets), which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements.

Collateral or other security is not usually obtained for credit risk exposures on these instruments, except where the Bank requires margin deposits from counterparties.

Settlement risk arises in any situation where a payment in cash, securities or equities is made in the expectation of a corresponding receipt in cash, securities or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risks arising from the Bank's market transactions on any single day.

(c) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The Bank's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

31 Credit risk (continued)

Risk limit control and mitigation policies (continued)

(c) Master netting arrangements (continued)

The Bank's maximum exposure to credit risk excluding collateral and other credit enhancements, was as follows:

	2007			2006		
	Carrying value AED'000	**Off balance sheet items AED'000**	**Maximum credit exposure AED'000**	Carrying value AED'000	Off balance sheet items AED'000	Maximum credit exposure AED'000
Deposits and balances due from banks	**6,030,364**	**-**	**6,030,364**	10,065,209	-	10,065,209
Loans and advances, net	**75,676,082**	**-**	**75,066,602**	62,424,649	-	61,756,969
Investment securities - unquoted, available for sale and held to maturity	**464,486**	**93,580**	**558,066**	877,055	8,647	885,702
Derivative financial instruments	**3,068,242**	**-**	**3,068,242**	998,544	-	998,544
Other assets	**1,752,721**	**-**	**1,534,335**	1,411,121	-	1,134,598
Bank guarantees	**-**	**14,760,040**	**14,418,720**	-	13,312,039	12,958,200
Letters of credit	**-**	**5,893,930**	**5,869,749**	-	2,931,974	2,897,797
Irrevocable commitments to extend credit	**-**	**31,578,427**	**31,578,427**	-	21,773,655	21,773,655
Credit default swaps	**-**	**3,221,685**	**3,221,685**	-	1,153,322	1,153,322
Total	86,991,895	55,547,662	141,346,190	75,776,578	39,179,637	113,623,996

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

32 Concentration of assets, liabilities and off balance sheet items

The distribution of assets, liabilities and off balance sheet items by geographic region and industry sector during the year was as follows:

	2007			2006		
	Assets AED'000	Liabilities and equity AED'000	Off-balance sheet items AED'000	Assets AED'000	Liabilities and equity AED'000	Off-balance sheet items AED'000
Geographic region						
Domestic (UAE)	91,496,033	67,979,894	44,240,783	59,882,466	45,650,394	29,762,851
Other GCC countries	4,654,149	4,137,191	2,460,698	4,654,492	3,941,019	1,868,656
Other Arab countries	215,489	512,994	38,659	674,714	1,367,594	238,005
Asia	3,390,105	947,632	2,071,567	7,239,587	2,997,885	3,215,187
Europe	3,211,082	32,413,998	5,008,896	5,372,049	26,362,195	3,700,458
USA	785,786	(117,651)	1,450,453	1,470,592	109,389	41,077
Rest of the World	2,461,205	339,791	333,586	1,794,478	659,902	406,555
Total	106,213,849	106,213,849	55,604,642	81,088,378	81,088,378	39,232,789
Industry sector						
Commercial & business	31,108,257	33,411,681	41,959,920	18,280,524	19,685,972	13,264,254
Personal	28,960,312	15,257,406	2,915,572	25,146,954	13,873,891	9,065,555
Public sector	917,028	768,762	106,827	12,832,673	6,296,933	6,659,949
Government	1,740,981	14,241,482	49,960	2,263,171	13,030,382	3,535,314
Banks and financial institutions	43,487,271	42,534,518	10,572,363	22,565,056	28,201,200	6,707,717
Total	106,213,849	106,213,849	55,604,642	81,088,378	81,088,378	39,232,789

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

33 Interest rate risk

Financial assets and liabilities exposed to cash flow interest rate risk are financial assets and financial liabilities with a floating interest rate. A significant portion of Bank's loans and advances, due from banks, customer deposits, due to banks and short and medium term borrowings fall under this category.

Financial assets that are not subject to any fair value or cash flow interest rate risk mainly comprise of investment in equity instruments.

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The off balance sheet gap represents the net notional amounts of the off balance sheet financial instruments, such as interest rate swaps which are used to manage the interest rate risk.

Interest rate risk arises from interest bearing financial instruments and reflects the possibility that changes in interest rates will adversely affect the value of the financial instruments and the related income. The Bank manages this risk principally thorough monitoring interest rate gaps and by matching the re-pricing profile of assets and liabilities.

Overall interest rate risk positions are managed by the Bank's treasury, which uses derivative instruments to manage the overall position arising from the Bank's interest bearing financial instruments.

The Bank uses simulation modeling tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by the Asset and Liability Committee (ALCO). Since most of the Bank's financial assets and liabilities are floating rate, deposits and loans generally reprice simultaneously, providing a natural hedge which reduces interest rate exposure. Moreover, the majority of the Bank's assets and liabilities reprice within one year, thereby further limiting interest rate risk.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

33 Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2007 was as follows:

	Effective rate	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets								
Cash and balances with Central Banks	3.76	12,500,000	-	500,000	-	-	2,657,588	**15,657,588**
Deposits and balances due from banks	5.10	5,768,634	41,418	159,946	-	10,209	50,157	**6,030,364**
Trading securities	-	-	-	-	-	-	122,433	**122,433**
Loans and advances, net	7.24	57,886,983	8,009,945	639,133	1,608,945	8,864,418	(1,333,342)	**75,676,082**
Derivative financial instruments	-	2,061,168	524,296	75,372	343,274	64,132	-	**3,068,242**
Investment securities	6.47	1,605,689	669,361	684,595	8,543	-	-	**2,968,188**
Investment properties	-	-	-	-	-	-	445,730	**445,730**
Other assets	-	-	-	-	-	-	1,752,721	**1,752,721**
Property and equipment, net	-	-	-	-	-	-	492,501	**492,501**
Total assets		79,822,474	9,245,020	2,059,046	1,960,762	8,938,759	4,187,788	**106,213,849**
Liabilities and equity								
Due to banks	4.52	3,358,583	1,732,258	252,949	26,761	-	227,825	**5,598,376**
Customers' deposits	3.96	39,506,947	4,712,421	3,564,579	81,769	11,760	9,283,344	**57,160,820**
Short and medium term borrowings	5.48	20,393,771	2,588,274	4,169,970	-	-	218,249	**27,370,264**
Derivative financial instruments	-	1,728,191	245,728	80,879	278,625	79,846	-	**2,413,269**
Other liabilities	-	-	-	-	-	-	2,259,377	**2,259,377**
Equity	-	-	-	-	-	-	11,411,743	**11,411,743**
Total liabilities and equity		64,987,492	9,278,681	8,068,377	387,155	91,606	23,400,538	**106,213,849**
On-balance sheet gap		14,834,982	(33,661)	(6,009,331)	1,573,607	8,847,153	(19,212,750)	-
Off-balance sheet gap		(3,101,704)	(2,241,568)	325,517	1,587,772	3,429,983	-	-
Total interest rate sensitivity gap		11,733,278	(2,275,229)	(5,683,814)	3,161,379	12,277,136	(19,212,750)	-
Cumulative interest rate sensitivity gap		11,733,278	9,458,049	3,774,235	6,935,614	19,212,750	-	-

Included in investment securities and due to banks are interest bearing amounts of AED 174,207 thousand and AED 18,964 thousand respectively relating to the Bank's overseas branches with effective rates of 7 % and 7.4%, respectively.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

33 Interest rate risk (continued)

The Bank's interest sensitivity position based on contractual repricing arrangements at December 31, 2006 was as follows:

	Effective rate	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000	Non-interest bearing items AED'000	Total AED'000
Assets								
Cash and balances with Central Banks	-	-	-	-	-	-	1,898,457	1,898,457
Deposits and balances due from banks	4.70	9,876,906	8,380	127,605	16,341	-	35,977	10,065,209
Trading securities	-	-	-	-	-	-	77,630	77,630
Loans and advances, net	6.87	44,640,980	7,783,135	856,983	757,367	7,270,424	1,115,760	62,424,649
Derivative financial instruments	-	727,275	130,618	30,070	78,979	31,602	-	998,544
Investment securities	6.91	1,886,210	439,046	56,171	1,826	1,101,053	216,438	3,700,744
Other assets	-	-	-	-	-	-	1,411,121	1,411,121
Property and equipment, net	-	-	-	-	-	-	512,024	512,024
Total assets		57,131,371	8,361,179	1,070,829	854,513	8,403,079	5,267,407	81,088,378
Liabilities and equity								
Due to banks	4.45	7,844,420	31,329	-	-	-	94,438	7,970,187
Customers' deposits	3.75	32,121,554	1,473,732	1,710,549	222,275	667,680	7,201,061	43,396,851
Short and medium term borrowings	5.25	10,350,271	2,445,427	3,814,496	-	-	-	16,610,194
Derivative financial instruments	-	665,998	43,963	23,819	42,037	30,216	-	806,033
Other liabilities	-	-	-	-	-	-	1,580,935	1,580,935
Equity	-	-	-	-	-	-	10,724,178	10,724,178
Total liabilities and equity		50,982,243	3,994,451	5,548,864	264,312	697,896	19,600,612	81,088,378
On-balance sheet gap		6,149,128	4,366,728	(4,478,035)	590,201	7,705,183	(14,333,205)	-
Off-balance sheet gap		75,296	(183,650)	73,460	89,989	(55,095)	-	-
Total interest rate sensitivity gap		6,224,424	4,183,078	(4,404,575)	680,190	7,650,088	(14,333,205)	-
Cumulative interest rate sensitivity gap		6,224,424	10,407,502	6,002,927	6,683,117	14,333,205	-	-

Included in investment securities and due to banks are interest bearing amounts of AED 129,570 thousand and AED 188,555 thousand respectively relating to the Bank's overseas branches with effective rates of 7% and 7.14%, respectively.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

34 Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

Liquidity risk can be caused by market disruptions or a credit downgrade which may cause certain sources of funding to dry up immediately. To guard against this risk, the Bank's management has diversified funding sources and assets are managed with liquidity in mind, maintaining a healthy balance of cash, cash equivalents, and readily marketable securities.

Liquidity risk management process

The Assets and Liabilities Committee (ALCO) of the Bank sets and monitors liquidity ratios and regularly revises and updates the Bank's liquidity management policies to ensure that the Bank is in a position to meet its obligations as they fall due.

The Bank's liquidity management process, as carried out within the Bank and monitored by Bank's Treasury, includes:

- Day-to-day funding is managed by monitoring future cash flows to ensure that requirements can be met. These include replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

34 Liquidity risk (continued)

Liquidity risk management process (continued)

The Bank has set an internal ceiling on the Advances to Deposits Ratio (ADR) that should not be higher than 1:1 between:

- the amount of loans and advances together with the amount of inter bank placements with a remaining life of more than three months and;
- the amount of stable resource comprising of "free own funds", a remaining life of more than six months, "stable customer deposits", and standby liquidity facilities .

The above definitions are broadly in line with the Central Bank of United Arab Emirates definitions of the Advances to Deposits Ratio, except that the statutory definition does not take into account the standby liquidity facilities.

Based on the internal guidelines, the liquidity ratios at the end of each quarter during the year was as follows:

	31-March	30-June	30-September	31-December
	%	%	%	%
2007	**87.50**	**85.50**	**86.64**	**84.92**
2006	102.29	89.00	93.30	98.05

The Bank also has unsecured standby facilities of USD 850,000 thousand (2006 – USD 1,000,000 thousand) to fund its liquidity needs (Note 15).

Funding approach

Sources of liquidity are regularly monitored by a separate team in the Bank's Treasury to maintain a wide diversification by currency, geography, provider, product and term.

The table below summarises the maturity profile of the Bank's assets and liabilities. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the consolidated balance sheet date to the contractual maturity date and do not take into account the effective maturities as indicated by the Bank's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the year end is based on contractual repayment arrangements, as follows:

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

34 Liquidity risk (continued)

The maturity profile of the assets and liabilities at December 31, 2007 was as follows:

	Total AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000
Assets						
Cash and balances with Central Banks	**15,657,588**	15,157,588	-	500,000	-	-
Deposits and balances due from banks	**6,030,364**	5,290,291	586,802	143,063	-	10,208
Trading securities	**122,433**	-	-	-	122,433	-
Loans and advances, net	**75,676,082**	24,854,325	2,726,356	2,654,441	9,950,542	35,490,418
Derivative financial instruments	**3,068,242**	132,773	208,215	149,426	380,064	2,197,764
Investment securities	**2,968,188**	64,711	99,486	93,134	1,396,309	1,314,548
Investment properties	**445,730**	-	-	-	-	445,730
Other assets	**1,752,721**	1,752,721	-	-	-	-
Property and equipment, net	**492,501**	-	-	-	-	492,501
Total assets	**106,213,849**	47,252,409	3,620,859	3,540,064	11,849,348	39,951,169
Liabilities and Equity						
Due to banks	**5,598,376**	3,095,990	2,168,859	-	-	333,527
Customers' deposits	**57,160,820**	48,790,290	3,964,780	3,564,579	829,411	11,760
Short and medium term borrowings	**27,370,264**	453,815	170,046	1,383,650	11,184,552	14,178,201
Derivative financial instruments	**2,413,269**	165,382	205,379	111,843	439,636	1,491,029
Other liabilities	**2,259,377**	2,259,377	-	-	-	-
Equity	**11,411,743**	1,288,575	-	-	-	10,123,168
Total liabilities and equity	**106,213,849**	56,053,429	6,509,064	5,060,072	12,453,599	26,137,685
Liquidity gap	-	(8,801,020)	(2,888,205)	(1,520,008)	(604,251)	13,813,484
Cumulative liquidity gap	-	(8,801,020)	(11,689,225)	(13,209,233)	(13,813,484)	-

Trading securities are assumed to be immediately realisable. Maturities of other assets and liabilities have been determined on the basis of the period remaining at the consolidated balance sheet date to the contractual maturity date.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

34 Liquidity risk (continued)

The maturity profile of the assets and liabilities at December 31, 2006 was as follows:

	Total AED'000	Less than 3 months AED'000	3 months to less than 6 months AED'000	6 months to less than 1 year AED'000	1 year to less than 3 years AED'000	Over 3 years AED'000
Assets						
Cash and balances with Central Banks	1,898,457	1,898,457	-	-	-	-
Deposits and balances due from banks	10,065,209	7,331,051	2,590,212	127,605	16,341	-
Trading securities	77,630	77,630	-	-	-	-
Loans and advances, net	62,424,649	21,309,974	3,706,877	3,561,742	7,013,558	26,832,498
Derivative financial instruments	998,544	53,893	37,197	31,925	319,235	556,294
Investment securities	3,700,744	260,324	21,676	92,903	942,492	2,383,349
Other assets	1,411,121	1,411,121	-	-	-	-
Property and equipment, net	512,024	-	-	-	-	512,024
Total assets	81,088,378	32,342,450	6,355,962	3,814,175	8,291,626	30,284,165
Liabilities and Equity						
Due to banks	7,970,187	7,792,678	161,169	-	16,340	-
Customers' deposits	43,396,851	37,048,041	2,462,020	2,996,099	192,906	697,785
Short and medium term borrowings	16,610,194	284,836	102,318	628,994	944,187	14,649,859
Derivative financial instruments	806,033	53,593	36,958	23,819	140,981	550,682
Other liabilities	1,580,935	1,580,935	-	-	-	-
Equity	10,724,178	1,248,982	-	-	-	9,475,196
Total liabilities and equity	81,088,378	48,009,065	2,762,465	3,648,912	1,294,414	25,373,522
Liquidity gap	-	(15,666,615)	3,593,497	165,263	6,997,212	4,910,643
Cumulative liquidity gap	-	(15,666,615)	(12,073,118)	(11,907,855)	(4,910,643)	-

Trading securities are assumed to be immediately realisable. Maturities of other assets and liabilities have been determined on the basis of the period remaining at the consolidated balance sheet date to the contractual maturity date.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

35 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. At December 31, the Bank had the following significant net exposures denominated in foreign currencies:

	2007 AED'000 equivalent long/(short)	2006 AED'000 equivalent long/(short)
US Dollar	**(1,346,463)**	(1,625,406)
Indian Rupees	**73,854**	61,164
Omani Riyal	**1,319**	2,239
Pound Sterling	**(1,803)**	20,960
Euro	**2,348**	(214,770)
Bahraini Dinar	**(445)**	(100)
Saudi Riyal	**(1,082)**	(86)
Japanese Yen	**(1,308)**	1,100
Australian Dollar	**(2,958)**	281
Swiss Frank	**899**	(270)
Others	**(121)**	343

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

35 Foreign exchange risk (continued)

Currency concentrations as at December 31, 2007:

	AED	US$	EUR	CHF	GBP	Other	Total
Assets							
Cash and balances with Central Banks	15,279,263	344,388	4	-	-	33,933	**15,657,588**
Deposits and balances due from banks	274,905	3,981,778	219,810	995	68,863	1,484,013	**6,030,364**
Trading securities	122,278	155	-	-	-	-	**122,433**
Loans and advances, net	47,470,978	25,256,533	832,842	185,888	11,544	1,918,297	**75,676,082**
Derivative financial instruments	282,168	2,518,008	31,356	-	60,848	175,862	**3,068,242**
Investment securities	364,230	2,166,767	208,943	-	-	228,248	**2,968,188**
Other assets	503,827	-	293,826	-	-	955,068	**1,752,721**
Total assets	**64,297,649**	**34,267,629**	**1,586,781**	**186,883**	**141,255**	**4,795,421**	**105,275,618**
Liabilities							
Due to banks	1,365,259	3,751,894	255,461	64,544	8,522	152,696	**5,598,376**
Customers' deposits	36,891,269	15,142,719	910,449	328,225	925,369	2,962,789	**57,160,820**
Short and medium term Borrowings	5,936,249	14,857,285	270,829	1,641,601	3,669,970	994,330	**27,370,264**
Derivative financial instruments	274,673	1,884,902	23,734	-	60,745	169,215	**2,413,269**
Other liabilities	1,498,504	680,525	14,996	22,635	42,717	-	**2,259,377**
Total liabilities	**45,965,954**	**36,317,325**	**1,475,469**	**2,057,005**	**4,707,323**	**4,279,030**	**94,802,106**
Off balance sheet items							
Letters of credit	2,330,703	2,037,672	339,622	12,046	4,738	1,169,149	**5,893,930**
Guarantees	8,274,515	5,094,112	535,594	3,518	33,028	819,273	**14,760,040**
Irrevocable commitments to extend credit	25,711,293	5,303,299	342,427	-	-	221,408	**31,578,427**
Credit default swaps	-	3,221,685	-	-	-	-	**3,221,685**
	31,316,511	15,656,768	1,217,643	15,564	37,766	2,209,830	**55,454,082**
Commitments for future capital expenditure	56,980	-	-	-	-	-	**56,980**
Commitments to invest in investment securities	-	93,580	-	-	-	-	**93,580**
Total off balance sheet items	**36,373,491**	**15,750,348**	**1,217,643**	**15,564**	**37,766**	**2,209,830**	**55,604,642**

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

35 Foreign exchange risk (continued)

Currency concentrations as at December 31, 2006:

	AED	US$	EUR	CHF	GBP	Other	Total
Assets							
Cash and balances with Central Banks	1,642,122	237,516	-	-	-	18,819	1,898,457
Deposits and balances due from banks	116,705	9,527,891	10,233	251	2,320	407,809	10,065,209
Trading securities	77,012	618	-	-	-	-	77,630
Loans and advances, net	37,854,862	22,528,982	577,683	802	376,842	1,085,478	62,424,649
Derivative financial instruments	90,104	(4,830,795)	113,073	1,061,360	3,624,708	940,094	998,544
Investment securities	257,500	3,035,884	227,825	-	-	179,535	3,700,744
Other assets	905,946	253,098	9,238	17,521	117,140	108,178	1,411,121
Property and equipment, net	506,430	-	-	-	-	5,594	512,024
Total assets	41,450,681	30,753,194	938,052	1,079,934	4,121,010	2,745,507	81,088,378
Liabilities							
Due to banks	2,937,057	3,700,855	311,838	905	167,685	851,847	7,970,187
Customers' deposits	21,194,779	17,148,664	1,236,468	338	2,930,052	886,550	43,396,851
Short and medium term borrowings	1,365,000	9,761,180	106,664	1,061,360	3,595,592	720,398	16,610,194
Derivative financial instruments	57,270	436,624	6,398	-	29,116	276,625	806,033
Other liabilities	1,246,315	518,114	(219,583)	17,239	38,542	(19,692)	1,580,935
Total liabilities	26,800,421	31,565,437	1,441,785	1,079,842	6,760,987	2,715,728	70,364,200
Off balance sheet items							
Letters of credit	241,341	2,066,732	384,131	11,526	11,355	216,889	2,931,974
Guarantees	6,652,296	5,939,422	275,791	4,571	31,436	408,523	13,312,039
Irrevocable commitments to extend credit	19,226,099	2,426,347	121,209	-	-	-	21,773,655
Credit default swaps	-	1,153,322	-	-	-	-	1,153,322
	26,119,736	11,585,823	781,131	16,097	42,791	625,412	39,170,990
Commitments for future capital expenditure	53,152	-	-	-	-	-	53,152
Commitments to invest in investment securities	8,647	-	-	-	-	-	8,647
Total off balance sheet items	26,181,535	11,585,823	781,131	16,097	42,791	625,412	39,232,789

36 Market risk

Market risk is the risk that the Bank's income and/or value of a financial instrument will fluctuate because of changes in market factors such as interest rates, foreign exchange rates and market prices of equity.

Market price risk

Market price risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Bank is exposed to market risk with respect to its investments in marketable securities. The Bank limits market risks by maintaining a diversified portfolio and by the continuous monitoring of developments in the market. In addition, the Bank actively monitors the key factors that affect stock and market movements, including analysis of the operational and financial performance of investees.

Management of market risk

The Board of Directors has set risk limits based on sensitivity analysis and notional limits which are closely monitored by the Risk Management Division, reported weekly to Senior Management and discussed fortnightly by the Assets and Liabilities Committee.

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are held by the Treasury and Derivatives Division, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value basis.

The Bank's activities expose it primarily to the financial risk of changes in foreign currency exchange rates and interest rates. The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange risk.

Market risk is identified, measured, monitored, and controlled by an independent risk control function. Market risk management aims to reduce volatility in operating performance and make the Bank's market risk profile transparent to senior management, the Board of Directors and regulators.

Market risk management is overseen by the Risk Management Committee and performs the following primary functions:

- Establishment of a comprehensive market risk policy framework,
- Independent measurement, monitoring and control of market risk,
- Setting up, approval and monitoring of limits.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

36 Market risk (continued)

Risk identification and classification

The Risk Management Committee identifies and classifies market risk for the Bank and puts in place risk management policies and procedures. All business segments are responsible for comprehensive identification and verification of market risks within their units. Regular meetings are held between Market risk management and the heads of risk taking businesses to discuss and decide on risk exposures in the context of the market environment.

Market risk is broadly classified into Trading and Non-trading categories:

Trading risk includes positions that are held by the Bank's trading unit whose main business strategy is to trade or make markets. Unrealized gains and losses in these positions are generally reported in Principal transactions under trading income.

Non-trading risk includes securities and other assets held for longer-term investment in securities and derivatives used to manage the Bank's asset/liability exposures. Unrealized gains and losses in these positions are generally not reported in Principal transactions revenue.

Trading risk

Market risk which includes interest rate risk, foreign exchange, equities and commodities and other trading risks involve the potential decline in net income or financial condition due to adverse changes in market rates.

Non-trading risk

Non-trading risk arises from execution of the Bank's core business strategies, products and services to its customers, and the strategic positions the Bank undertakes to risk-manage exposures.

These exposures can result from a variety of factors including but not limited to re-pricing of gaps in assets, liabilities and off–balance sheet instruments and changes in the level and shape of market interest rate curves.

Risk measurement

The following are the tools used to measure the market risk, because no single measure can reflect all aspects of market risk, the Bank uses various matrices, both statistical and non-statistical, including:

- Non-statistical risk measures
- Sensitivity analysis

Non statistical risk measures

Non statistical risk measures, other than stress testing, include net open positions, basis point values, option sensitivities, market values, position concentrations and position turnover. These measures provide granular information on the Bank's market risk exposure.

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

36 Market risk (continued)

The Bank uses non-statistical, scenario based risk limits to monitor and control market risk on a day to day basis.

The scenarios used for interest rate risk assess the change in the portfolio to parallel and non-parallel rate shocks. The non-parallel rate shocks simulate steepening, bending and twisting interest rate scenarios.

Portfolio Sensitivity for Major Interest Rate Risk Currencies (Parallel Rate Shock) is analysed separately for the Bank's Trading and Non trading portfolio as follows:

Market risk – Trading portfolio

The following table depicts the sensitivity to a reasonable possible change in interest rates with other variables held constant, and the impact on the Bank's consolidated income statement or equity from trading portfolio.

The sensitivity of the income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at December 31, 2007, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing the fixed rate available for sale financial assets, including the effect of any associated hedges as at December 31, 2007 for the effect of assumed changes in interest rates. The sensitivity of equity is analysed by maturity of the asset or swap.

Interest rate risk

Parallel Rate Moves in AED interest rates (AED '000):

	+200 bps	+100 bps	-100 bps	-200 bps
December 31, 2007	**5,557**	**(1,416)**	**11,860**	**37,041**
December 31, 2006	(24,912)	(16,959)	27,554	67,695

Parallel Rate Moves in USD interest rates (AED '000):

	+200 bps	+100 bps	-100 bps	-200 bps
December 31, 2007	**(3,139)**	**3,389**	**(16,065)**	**(48,317)**
December 31, 2006	27,664	18,079	(29,209)	(71,429)

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

36 Market risk (continued)

Market risk – Trading portfolio (continued)

Currency wise

The following table depicts Portfolio Sensitivity for Foreign Exchange:

Price Shock in Percentage (AED '000)

December 31, 2007	+10%	+5%	-5%	-10%
AUD	27	14	(14)	(27)
EUR	59	29	(29)	(59)
GBP	-	-	-	-
JPY	190	95	(95)	(190)
USD	(8,248)	(4,320)	4,775	10,081

Price Shock in Percentage (AED '000):

December 31, 2006	+10%	+5%	-5%	-10%
AUD	(44)	(22)	22	44
EUR	49	25	(25)	(49)
GBP	-	-	-	-
JPY	230	115	(115)	(230)
USD	(10,882)	(5,700)	6,300	13,301

Market risk –Non trading portfolio

Interest rate risk

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, and the impact of the Bank's consolidated income statement from Bank's non trading portfolio.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities, including the effect of hedging instruments. The Sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

	Change in basis points	Sensitivity of net interest income	Sensitivity of equity
		AED'000	AED'000
December 31, 2007	+25	38,420	(33,292)
	-25	(38,420)	33,292
December 31, 2006	+25	28,800	(15,609)
	-25	(28,800)	15,609

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

36 Market risk (continued)

Operational risk

Operational risk is the risk of loss arising from system failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorisation and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Equity price risk

Equity price risk is the risk that the fair values of equities decrease as the result of changes in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Bank's investment portfolio.

37 Capital adequacy and capital management

The objective of the Bank is to have an adequate capital base to support its business growth. The Bank limits its exposure to risk weighted assets based on the capital base calculated as stipulated by Central Bank of United Arab Emirates. The capital adequacy ratio calculated in accordance with the guidelines of the Central Bank of United Arab Emirates is as follows:

Capital management process

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of balance sheets, are:

- To comply with the capital requirements set by the Central Bank of United Arab Emirates;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the authority on a quarterly basis.

The Central Bank requires each bank to: (a) hold the minimum level of the regulatory capital of and (b) maintain a ratio of total regulatory capital to the risk-weighted asset (the 'Basel ratio') at or above a minimum of 10%.

The Bank's regulatory capital is divided into two tiers:

a) Tier 1 Capital
b) Tier 2 Capital

Notes to the consolidated financial statements for the year ended December 31, 2007 (continued)

37 Capital adequacy and capital management (continued)

Capital adequacy ratio

The table below summarises the composition of regulatory capital and the ratios of the Bank for the year ended December 31, 2007 and 2006.

	2007 AED'000	2006 AED'000
Tier 1 capital		
Share capital	**4,000,000**	4,000,000
Statutory and legal reserves	**2,380,661**	1,983,157
General and contingency reserves	**2,150,000**	2,075,000
Proposed dividends	**1,210,000**	1,210,000
Retained earnings	**1,651,705**	1,342,892
Minority interests in equity of subsidiaries	**114,231**	65,800
	11,506,597	10,676,849
Tier 2 capital		
Subordinated floating rate notes (Note 15)	**1,469,200**	1,469,200
Cumulative change in fair values	**(94,854)**	47,329
Total qualifying capital	**1,374,346**	1,516,529
Total regulatory capital	**12,880,943**	12,193,378
Risk-weighted assets:		
On-balance sheet	**80,607,717**	65,815,021
Off-balance sheet	**15,077,265**	9,103,657
Total risk-weighted assets	**95,684,982**	74,918,678
Capital adequacy ratio	**13.46%**	16.28%

The capital adequacy ratio was above the minimum requirement of 10% stipulated by the Central Bank of United Arab Emirates as of December 31, 2007 and 2006.

38 Foreign currency balances

Net assets amounting to the Indian Rupee equivalent of AED 74,311 thousand (2006 - AED 61,956 thousand) held in India are subject to the exchange control regulations of India.

39 Trust activities

As of December 31, 2007, the net asset value of the funds under the management of the Bank amounted to AED 1,980,805 thousand (2006 – AED 1,194,578 thousand).

40 Comparative figures

Certain comparative figures for the prior year have been reclassified, where necessary, to conform with the current year presentation.

41 Approval of the consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on February 4, 2008.

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